

**The Income Mobility of Puerto Rican Bodegueros in New York City:  
A Property Rights Perspective**

by

**Ricardo Miranda**

B.A. Political Science, Hampshire College, 1990

M.A. Latin American Studies, University of California, Los Angeles, 1992

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Signature of Author\_\_\_\_\_

Department of Urban Studies and Planning  
June 1995

Certified by\_\_\_\_\_

Professor Karen R. Polenske  
Thesis Supervisor

Accepted by\_\_\_\_\_

Professor Langley C. Keyes  
Chairman, Department Committee for Graduate Students  
Department of Urban Studies and Planning

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## **ABSTRACT**

In this thesis, I analyze the economic status of Puerto Rican grocery store owners (**bodegueros**) in the Cobble Hill/Carroll Gardens area of South Brooklyn. I argue that property ownership has provided Puerto Rican bodegueros of the Cobble Hill/Carroll Gardens community with more upward income mobility relative to the Puerto Rican labor force (wage and salary workers) of this same community; ownership of the stores allowed the bodegueros to remove themselves from the NYC labor markets and therefore attain higher income mobility relative to wage and salary workers.

I argue that the initial endowment of capital is crucial in determining who is able to achieve a middle-class income status through small-business ownership. Furthermore, there is no equality of opportunity in terms of gathering the initial capital investment for small-business ownership because of the political, institutional, and organizational barriers to property ownership and accumulation. These barriers to entry into small-business ownership include: (1) capital-market gaps, (2) low wage levels, (3) high costs of living in urban areas, (4) discrimination in the labor markets, and (5) disparities in human-capital skills. The Puerto Rican bodegueros in this study were able to attain a higher income mobility than Puerto Rican laborers by: (a) overcoming these barriers to entry through modest personal savings, borrowing from family members, and/or informal contractual relations; and (b) relying on the institution of the family to cooperate to manage their businesses. Essentially, inequality of opportunity limits the ability of Puerto Rican laborers to gain wealth (income and assets) to facilitate small-business ownership opportunities and accumulate additional property.

The framework of analysis entailed combining two methodologies: (1) survey research which investigated the micro history and operations of six cases; and (2) the property rights analytical framework developed by Polenske (1995) in which variables such as governance, institutions, power, control, and distributional consequences are explicitly included in the analysis. I found that income inequality both within the Puerto Rican

community in New York City (property owners versus laborers) and relative to the larger U.S. society is a distributional consequence of the lack of political power and control on the part of Puerto Ricans to affect the governance of redistributive programs and affirmative-action laws targeting the capital and labor markets. The Puerto Rican labor force faces political, institutional, and organizational constraints on their opportunities for upward income mobility through property ownership. This limits the growth in business and property owners within the Puerto Rican community in New York City, which, in turn, perpetuates further the political powerlessness of Puerto Ricans to change the governance of redistributive programs and affirmative-action laws.

Thesis Supervisor: Dr. Karen R. Polenske

Title: Professor of Regional Political Economy and Planning

Thesis Reader: Karl Seidman

Title: Lecturer on Community Economic Development

To my fiancée Christina Romero and my son Marco Antonio Miranda for  
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For many petits bourgeois, work dominates their lives. In the struggle to keep their business afloat, husbands, wives, children, and often a wider network of kin and friends are drawn into the routines of the workplace. The insulation of work from home, family from job--so familiar to most people in a modern capitalist society--is neither possible nor, in many instances, desired. Their work is their life. The sense of self-hood, the day-to-day domestic relationships take their character from the rhythms and routines of the shop.... The relationships between the owners of the productive resources and those who work alongside them are seldom simply those of boss and worker. Commonly the worker is also a spouse, or a son or daughter, for the greatest number of petits bourgeois businesses are family businesses.... [S]uch enterprises are not simply run by families, they are run for families.

--F. Bechhofer and B. Elliott<sup>1</sup>

## CHAPTER 1: INTRODUCTION

The issue of the income mobility of Puerto Ricans in the United States (especially in New York City) is usually discussed by analysts in reference to finding answers to the question of persistent poverty. The central focus of their studies has therefore been the lack of income mobility relative to other groups in society; moreover, the primary unit of analysis has been the individual as a labor-force participant using mostly secondary data from the U.S. Census Bureau, such as decennial censuses, Current Population Surveys (CPS), and Public Use Microdata Samples (PUMS). This applies to both human-capital and labor-market segmentation theorists.

As a result, practically no research has been done on the economic situation of self-employed Puerto Ricans. This is unusual given the fact that Puerto Rican-owned small businesses have been present in low-income, Puerto Rican communities in New York City (NYC) ever since migration to the city began in mass numbers during and after the Second World War. Accordingly, I am aware of a case in which a Puerto Rican immigrant, with very little schooling (early elementary level) and no formal training in English, was able to attain a middle-class income status through self-employment and property accumulation (real estate). Yet, this case is difficult to explain through the lenses of the prevailing theories of income mobility. It is evident that theories that use the individual as a labor-force participant as their unit of analysis are inappropriate to analyze the economic situation of the self-employed who do not participate in the labor market and oftentimes operate their businesses as family ventures. In essence, the variable of

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<sup>1</sup>Bechhofer and Elliott (1985: 200).



property ownership is neglected in the prevailing theories of income mobility;<sup>2</sup> these theories also use the individual as the unit of analysis instead of the family. This is why the conventional theories are hard pressed to account for the above-mentioned case of the self-employed person achieving a middle-class income status.

In this thesis, I analyze the economic status of Puerto Rican grocery store owners (**bodegueros**) in the Cobble Hill/Carroll Gardens area of South Brooklyn. I argue that property ownership has provided Puerto Rican bodegueros of the Cobble Hill/Carroll Gardens community with more upward income mobility relative to the Puerto Rican labor force (wage and salary workers) of this same community; ownership of the stores allowed the bodegueros to remove themselves from the NYC labor markets and therefore attain higher income mobility relative to wage and salary workers.<sup>3</sup>

I argue that the initial endowment of capital is crucial in determining who is able to achieve a middle-class income status through small-business ownership. Furthermore, there is no equality of opportunity in terms of gathering the initial capital investment for small-business ownership because of the political, institutional, and organizational barriers to property ownership and accumulation. These barriers to entry into small-business ownership include: (1) capital-market gaps, (2) low wage levels, (3) high costs of living in urban areas, (4) discrimination in the labor markets, and (5) disparities in human-capital skills. The Puerto Rican bodegueros in this study were able to attain a higher income mobility than Puerto Rican laborers by: (a) overcoming these barriers to entry through modest personal savings, borrowing from family members, and/or informal contractual relations; and (b) relying on the institution of the family to cooperate to manage their businesses. Essentially, inequality of opportunity limits the ability of Puerto

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<sup>2</sup> In this essay, I use Bromley's (1991: 2) definition of property and property rights: "Property...is a benefit (or income) stream, and a property right is a claim to a benefit stream that the state will agree to protect through the assignment of duty to others who may covet, or somehow interfere with, the benefit stream....Property is not an object but rather a social relation that defines the property holder with respect to something of value (the benefit stream) against all others. Property is a triadic relation involving benefit streams, rights holders, and duty bearers." Ownership is just one of the "bundle of property rights," which are the rights to enjoy, develop, dispose, inherit, own, use, etc. (Polenske 1994). Capital is one form of property as is real estate.

<sup>3</sup> Hereafter, I will use the terms "laborers" and "wage and salary workers" interchangeably.

Rican laborers to gain wealth (income and assets) to facilitate small-business ownership opportunities and accumulate additional property.

The framework of analysis in this essay is to link the micro history and operation of these bodegas to the larger macro context in terms of constraints to small-business ownership opportunities. For the macro context, I utilized the property rights framework of analysis advocated by Polenske (1995) in which variables such as governance and institutions, power and control, and distributional consequences are explicitly included in the analysis.

Given my time and resource constraints, I do not argue that the evidence of my findings are representative of all bodegueros in NYC. I chose to study the economic situation of bodegueros because grocery stores were the first businesses that Puerto Rican immigrants owned and they comprised half of all small businesses owned by Puerto Ricans in NYC until the early 1970s (Lopez 1973). Thus, there is important indicative and historical value in studying the economic status of the bodegueros in terms of generalizing about the income mobility of Puerto Rican small-business owners as a whole. In essence, there is much to be learned about the income mobility of Puerto Rican small-business owners through a case study of the economic situation of bodegueros.

In the first section of Chapter 1, I explain Polenske's (1995) property rights analytical framework. For the second section of this chapter, I outline my research methodology. The third section of Chapter 1 consists of a literature review of the two prevailing theories of the income mobility of Puerto Ricans in the United States. In Chapter 2, I present a profile of the bodegueros that I interviewed in South Brooklyn. Chapter 3 examines the findings of my research. For Chapter 4, I analyze the cases as well as the constraints for small-business ownership opportunities by applying Polenske's (1995) property rights analytical framework. Chapter 5 attempts to answer the question of why 90% of the formerly Puerto Rican-owned bodegas throughout NYC are now owned by Dominicans (Fuentes 1992). In Chapter 6, I discuss the policy implications of this study at the micro (i.e., particular to bodegas) and macro (i.e., small business development as a strategy for economic development) levels.

### 1.1: Property Rights Analytical Framework

Polenske (1995: 11) argues that “[p]roperty rights define the distribution of wealth and income and also the location of people, firms, and governing bodies in space. Thus, property rights affect the development process and vice versa in a truly dialectical manner.”<sup>4</sup> She develops an analytical framework that identifies five variables to help the policy maker understand the implications of property arrangements for the design of economic development strategies. These variables are: (1) institutions, (2) governance mechanisms, (3) power, (4) control, and (5) distributive consequences.

Similar to North (1990), Polenske defines the first variable, institutions, as formal and informal rules, codes of behavior, and social norms as opposed to organizations. In her view, property is an institution that varies across different societies.<sup>5</sup> She argues that there are four types of institutions that affect property rights:

(1) constitutional order, which defines the scope and limits of regulations and the terms and conditions of governance, (2) legal institutions, which include laws and regulations and the terms and conditions of governance, (3) administrative and enforcement institutions, which determine how rules and regulations are implemented, administered and enforced, and (4) social and behavioral norms, which define perceptions of fairness, justice, and equity (Polenske 1995: 13).

Thus, the policy maker must design an economic development strategy according to the institutions of his or her particular society, given that they function as the incentive systems for economic development. For example, the social norms of the family set the context for cooperation in the management of small businesses.

Governance mechanisms, which is the second variable, are the forms in which particular types of economic, legal, political, and social institutional frameworks take shape, such as hierarchical and horizontal units. These types of mechanisms are manifested in economic forms through corporate hierarchies, joint ventures, cartels, and networks as well as in political forms through totalitarian, federalist, or decentralized governments. “Both the

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<sup>4</sup>She accepts Bromley’s (1991) definition of property rights.

<sup>5</sup>Polenske adopts Bentham’s (1978) definition of “property” as an expectation of the advantages derived from an object that we claim to possess.

economic and the political forms of governance affect economic development, and vice versa; thus, both must be considered in designing an economic development strategy” (Polenske 1995: 16).

Polenske further argues that differences in institutions and governance mechanisms must be accounted for in policy design. In her view:

The governance mechanism must be credible (North, 1993; Shepsle, 1992; Williamson, 1994). Within the political governance mechanism, [policy makers] must determine whether or not it is necessary to get the property rights right (Williamson, 1994, p. 34), the types of enforcement mechanisms needed for maintaining a given property-rights system (Coleman, 1990, pp. 70, 266-269; Ellickson, 1991, pp. 207-229; and North, 1990, pp. 54-60), and the political and social limits on the range of formal and informal property rights (Campbell, 1992, p. 162). This need exists regardless of whether the political governance structure is centralized or decentralized or whether it supports private, communal, or state ownership (Polenske 1995: 18).

The third variable, power, as Polenske points out, has been defined in many ways by different analysts; moreover, the relationship between power and economic development has been widely debated. Traditionally, the central focus of analysts who study power has been the state or elites. Very few analysts discuss the relationship between power, economic development and property rights. Polenske adopts Razzaz’s (1991) distinction in terms of the three types of property relations: property rights, property claims, and property status. Razzaz (1991) defines property rights as legally defined formal rights to ownership of and control over property which the state attempts to enforce; property claims are the perceptions of individuals or groups in terms of what they believe their property rights should encompass; and property status is the ability of an individual or group to dispose of property, which is a reflection of their de facto control over property. Polenske emphasizes Razzaz’s point that seemingly powerless groups can exert power through “cumulative noncompliance” in the transformation of property claims into property status. Thus, in the design of an economic development strategy, Polenske advocates that the policy maker must understand the nature of power in society, be it in its state, elite, or cumulative noncompliance form, and how the exercise of power affects property rights.

In terms of the fourth variable, control, Polenske uses the concept of the bundle of rights to show that property ownership does not necessarily translate into the right to control property. This is so because the rights to use, develop, inherit, abandon, destroy etc. (i.e., the bundle of rights) may each be held by different individuals. "Control implies an ability to enforce, but enforcement is difficult in the case of poorly defined property rights and/or means to enforce may be too expensive or unavailable to those in power" (Polenske 1995: 19). Individuals, groups, or the state may have control, but not power, or vice versa. Additionally, they may have the power to exclude, transfer, and distribute, or only one or two of these rights. "Property rights is one of the instruments used to gain control and/or power, the possession of which have/has important implications for the design of viable economic-development strategies" (Polenske 1995: 19).

According to Polenske, the variables of institutions, governance mechanisms, power, and control, all affect the distributional consequences (the fifth variable) of economic, political, and social actions of the citizens of a nation. Changes in property relations have varying economic and social impacts on different income, political, and social groups across space. In taking up the debate on the role of property rights in fostering efficiency versus equity, Polenske (1995: 27) argues that:

[P]olicy makers who are designing and/or implementing an economic development strategy should consider that equity (distributional) considerations are equally important with efficiency considerations; consequently, the initial allocation of property rights does matter. From the perspective of distribution, whether among people or regions, therefore, the initial allocation is critical, but so too is the process by which the property rights are delineated, transformed, and/or enforced as development occurs.

In sum, the five variables outlined in Polenske's property rights framework: (1) institutions, (2) governance mechanisms, (3) power, (4) control, and (5) distributive consequences, are tools to help the policy maker to analyze actual cases and situations in the process of designing and implementing a strategy for economic development. The exact linkages between these variables are context specific. The framework allows the policy maker to tailor public policies according to the conditions and property relations of his or her nation, region, or locality.

In this study, I examine the political governance issue of equality of opportunity for business and property ownership opportunities; the interaction of institutional issues, such as discrimination, the family, taxation and affirmative-action laws in defining the context for the exercise of property rights; power issues, such as the ability of the Puerto Rican community to influence state policy-making to expand property ownership opportunities; control issues, such as the ability to ensure implementation of redistributive programs (to be defined further into this thesis) and affirmative-action laws that promote equality of opportunity for business and property ownership opportunities; and the distributional consequences of the unequal endowment of capital for small-business ownership and additional property accumulation. In Chapter 4, I will show how these variables are linked in this study.

## 1.2: Methodology

The methodology of this thesis consisted of open-ended interviews with a prepared questionnaire. Although at one time, the majority of bodegas in the Cobble Hill/Carroll Gardens area of South Brooklyn were Puerto Rican-owned, today (1995) there are only eight Puerto Rican bodegueros. From a total of 45 grocery stores, thirty bodegas are now owned by Dominicans, and the rest are owned as follows: 4 by Koreans, 2 by Syrians, and 1 by a Mexican. In this thesis, I interviewed six out of the remaining eight Puerto Rican bodega owners during the months of January through March of 1995. The other two bodega owners refused to be interviewed. Five of the interviews were conducted in Spanish. I chose this community because it is one of the pioneer neighborhoods with respect to Puerto Rican migration to NYC.<sup>6</sup> The sample was not based on a random selection process because I do not claim that these cases are historically representative of all Puerto Rican bodegueros in NYC. I was merely testing my hypothesis through a "snowball" method of selection (i.e., through contacts within the community). This methodology was more appropriate than an analysis based on macro data because there were various specific questions that I asked that elicited information not provided by secondary data (See Appendix A for the specific questions asked).

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<sup>6</sup>According to Sánchez-Korrol (1994), Puerto Ricans migrated to this area because of the role of the Brooklyn Navy Yard as a major employer of manual laborers.

The first set of questions concerned the occupational backgrounds of the bodegueros when they lived in Puerto Rico and their migration experience. The occupational background question let me know if they had previously owned a business. The migration questions were important because there has been an on-going controversy over this issue. Conservative analysts have argued that persistent poverty among Puerto Ricans is a reflection of “circular” migration. They argue that Puerto Ricans do not stay long enough in the United States to establish “roots” in order to learn human capital skills. Are bodegueros less likely to migrate back to Puerto Rico? Are they more likely to migrate back and forth if family members are able to tend to the stores?

The second set of questions was about the ownership motivations of the bodegueros. By asking these questions, I wanted to know what was the rationale behind wanting to be self-employed and why they chose to own a grocery store rather than some other type of business. I was interested in finding out if they consciously perceived small-business ownership as a method of achieving higher income mobility relative to participation in the labor markets.

The third set of questions concerned the history of the stores and the residences of the store owners. Some of these questions were trying to get at how long the stores were in operation and whether or not the previous owners were Puerto Rican. I was interested in finding out if market research and analysis determined the location decisions and if there was class integration or segregation within the Puerto Rican community in South Brooklyn.

The fourth set of questions was about finance. I wanted to know exactly how the bodegueros overcame the barrier to entry in terms of the initial capital investment required for the purchases or start ups.<sup>7</sup> I was trying to discover if they had borrowed or attempted to borrow from commercial banks for both the initial capital investment and working capital credit needs.

The fifth set of questions dealt with the issues of security and stability. I was interested in evaluating the level of risk involved for the bodegueros in relying on business ownership for their livelihood. I wanted to find out if the

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<sup>7</sup>By “start up,” I mean a store which was originally established by the current owner.

lower risks involved in earning a livelihood in the labor markets compensated for possibly lower pay.

The sixth set of questions concerned labor issues. I asked these questions because I wanted to assess whether or not the survival and viability of the bodegas were dependent on the “exploitation” of family labor.

In addition to these questions, I asked several standard questions, such as age, family structure (size and marital status), education, and mean annual income in order to compare the situation of the bodegueros with Puerto Rican labor-force participants for the census tracts of the Cobble Hill/Carroll Gardens area that I surveyed. I asked the bodegueros questions concerning the age, education, and occupation of their children; I also asked them whether or not they knew if their children earned higher mean incomes than they did. I wanted to see if the parents' income mobility through property ownership impeded, constrained, or enhanced the occupational and/or income mobility of the following generation.

In addition, I asked the bodegueros if they were aware of the fact that the majority of the bodegas in the community and throughout NYC are now Dominican-owned and if they knew why this had occurred. Lastly, I asked them about the current purchase/sale value of a bodega.

Of course, the most obvious limitation with the sample of this thesis is that it is not representative of the larger population of Puerto Rican bodegueros in NYC because the interviewees were not randomly selected. The sample may also be biased towards the most successful Puerto Rican bodegueros in South Brooklyn given that this thesis focuses on the remaining Puerto Rican store owners. However, there are no data available to track whether or not the bodegueros retired, moved to Puerto Rico, Florida, or another city, entered the labor markets, or purchased or began a new business. Nonetheless, the data obtained in the interviews provided insightful information not available through secondary data.

### 1.3: Literature Review

There are two schools of thought on income mobility (or lack of) that have been applied to the situations of Puerto Ricans and other Hispanics in the United States. (Accordingly, this literature review will also cover authors who analyze the experiences of Puerto Ricans at a national level in the mainland United States and Hispanics as an aggregate group, because they use



the same analytical tools and methods and come up with similar findings and interpretations.) The first group is the human-capital theorists who focus on the supply-side of the labor market; they perceive the labor market to be a single market. The second group is the labor-market segmentation theorists, who examine the demand side of the labor market; they conceptualize the labor market as being differentiated, hierarchical markets.

Originally, both the human-capital and labor-market segmentation theorists sought to explain the income disparities between blacks and whites (Osberg 1984; DeFreitas 1991; Torres and De la Torre 1991). Others (Borjas and Tienda 1985; Stafford 1985; Bean and Tienda 1987; Tienda 1985; Tienda 1989; Bean et al. 1991; DeFreitas 1991; Meléndez et al. 1991; Rodríguez 1991; Torres 1991) later applied these theories and their statistical methods to the case of Puerto Ricans.

Human-capital theorists posit income as a function of the characteristics of an individual's education, age, job experience, and skills. Better educated, older, more-experienced and skilled workers receive higher incomes than less-educated, younger, less experienced and skilled workers. Because market forces are assumed to operate independently of institutional (values and organizations) constraints, low wages received by "nonwhites" reflect their choice not to invest in training or education that would improve their economic status. Thus, low wages are a result of non-optimal decisions<sup>8</sup> (not to invest in training or education) by "minorities." These "non-optimal" decisions may benefit some sectors of the economy, such as employers of unskilled labor who benefit because of the artificially high supply of unskilled, potentially high productivity workers; however, overall it is a misallocation of resources (Osberg 1984: Ch. 9; DeFreitas 1991: 105; Torres and De la Torre 1991: 267-268).

Human-capital theorists then applied the theory to Latinos and incorporated variables such as English proficiency, nativity (U.S. vs. foreign born), family structure (household head and size), and unemployment in their analyses (Grenier 1984; Mc Manus 1985; Kossoudji 1988; Bean et al. 1991). These theorists implicitly assume that there are no distortions in the labor

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<sup>8</sup>Although there is probably some proportion of people of color who decide not to invest in training or education, the extent to which this is true must be measured before such an assertion can be made. This information cannot be gained from secondary data because the data do not disclose any information about people's decision-making processes and motivations.

market, and that employers and employees act rationally in the labor market. They also assume that there is equal access to quality education, training, and services.

The most important camps within the labor-market segmentation school of thought deal with hypotheses about skills-mismatch, service-sector expansion, and job queues. The skills-mismatch thesis refers to the effect of industrial restructuring in the United States (since the 1970s) in which the flight of manufacturing jobs from inner cities to the suburbs, rural areas, and developing countries has led to increased joblessness among people of color because they do not have the required skills to fill the jobs in the growing, high-technology sectors (Wilson 1987; U.S. Commission on Civil Rights 1976; Ortiz 1991). The service-sector expansion thesis concerns the increasing employment of people of color and immigrants in service-oriented industries characterized by low wages, poor work conditions, and a lack of career mobility (Sassen 1987; Perez and Martinez 1993). The job queues thesis refers to the differentiated employment of racial/ethnic groups according to sector, whereby there is a progressive upward movement by lower groups over time (Tienda 1989; Bailey and Waldinger 1991; Cross and Waldinger 1992).

Although there are several camps within the labor-market segmentation theory, the underlying theme of these theorists is that there is no single labor market that clears and that discrimination is the causal variable in the formation of separate labor markets organized along racial and ethnic lines. This confers higher profits to employers and higher wages for white employees relative to people of color.

Analysts who use the labor-market segmentation theory of income mobility basically examine the racial/ethnic distribution of workers by sector and occupation. They divide sectors between core and periphery and classify occupations along three lines: primary independent, primary subordinated, and secondary. Tables 1 and 2 provide the defining characteristics of these classifications.

These analysts make three major assumptions. First, discrimination is pervasive in the labor markets. Second, race, class, and gender oppression are inherent in the economy. Finally, the income mobility of people of color will most likely continue to be circumscribed by the political power of upper- and middle-class whites without policy intervention.

**Table 1: Labor-Market Segmentation by Sector**

Sector	Characteristics
Core (e.g., durable manufacturing, construction, finance, real estate, insurance, extractive industries).	High productivity, high profits, intensive use of capital, monopolistic or oligopolistic markets, high degree of unionization, high wages.
Periphery (e.g., agriculture, retail trade, nondurable manufacturing, subprofessional services).	Small firm size, intensive use of labor, low productivity, competitive markets, low degree of unionization, low wages.

*Sources:* Meléndez, et al. 1991; Stafford 1985; Torres 1991

Note: There has been some debate about which specific sectors should be categorized as core or periphery. See Stafford (1985: Ch. 2) for an overview of this debate.

**Table 2: Labor-Market Segmentation by Occupation**

Occupation	Characteristics
Primary independent	Educational credentials, state regulation and licensing, well-defined hierarchical structure, advancement opportunities, high wages.
Primary subordinated	Unionized, technical or machine-paced systems of control, pay well but less than primary independent.
Secondary	lack of job security, high turnover, require little formal training or education, simple workplace labor control systems, low pay.

*Sources:* Meléndez, et al. 1991; Stafford 1985; Torres 1991

Both human-capital and labor-market-segmentation theorists rely on statistical analyses (e.g., multiple regression, multivariate, shift-share, chi square, ANOVA, etc.) of secondary data sources especially the databases mentioned earlier. When trying to measure income mobility through the use of such data, analysts are confronted with important questions regarding the validity of the findings. That is not to say that the findings are invalid or irrelevant overall; however, there are several problems with the use of such data.

First, the aggregated, macro nature of the data does not provide the level of specific detail needed to answer some questions about income mobility. For example, as Rodríguez (1991: 41) points out: "One question left unanswered by the aggregate data is whether there is a settling process within each occupational category that accounts for low incomes. That is, if we were to examine each category, would we find Puerto Ricans concentrated at the lower income end of each disaggregated occupational category?"

Second, some important questions that concern income mobility are not answered by the databases. The issue of labor-force participation is instructive. Income derived from informal sector activities or the underground economy (especially the drug trade) would not be accounted for in the secondary data.

Third, there has been an on-going controversy over undercount problems with respect to NYC's total population. For instance, in August 1980, the New York State and City governments filed a law suit against the U.S. Census Bureau, claiming that the Bureau undercounted the city and state populations. This affects Puerto Ricans in that "those who are not counted by the census tend to be marginal to the labor force or to have low incomes" (Rodríguez 1991: 27).

Fourth, the data are static and do not necessarily cover information about the same people over time; thus, longitudinal studies usually are not designed to capture changes within the Puerto Rican population. As Rodríguez (1991: 27) points out: "the analysis of the decennial data is, in the main, limited to cross-sectional presentation of the data. As such, changes over time are not covered and the time order of the variables is not explored."

Fifth, the data tell us nothing about access to resources, opportunities, and services, not to mention quality issues. In other words, the data do not

disclose any information about inherited wealth, other sources of income (such as investments in stocks and bonds), access to day- and health-care services, the quality of public schools attended by students of color in inner cities, nor the extent of influence in the public policy-making process.

Sixth, because of the citizenship status of Puerto Ricans, variables measured and attributed to Puerto Ricans may actually pertain to undocumented Latino immigrants. Undocumented immigrants pose as Puerto Ricans in order to avert detection and deportation by the Immigration and Naturalization Service (INS).

Finally, underlying behavioral motivations of people cannot be discerned through secondary data sources. The issue of the increase in Puerto Rican female-headed households in NYC is related to this issue. As Rodríguez (1991: 38) argues:

[I]t is important *not* to conclude that the high proportion of FHH [female-headed households] implies the destruction of the Puerto Rican family. . . .[W]e cannot generalize about family life from data based on family structure. There have always been families headed by women--because of desertion, death, separation, or female choice. There is no historical evidence that sustains any generalization other than that life becomes economically difficult for a woman alone with children (emphasis in the original).

In sum, the lenses of the human-capital and labor-market segmentation theories cannot explain the income mobility of Puerto Rican bodegueros. These theories use the individual as a labor-force participant as their unit of analysis. This, however, is an inappropriate unit of analysis to analyze the economic situation of the self-employed because they do not participate in the labor markets, and because they tend to operate their businesses as family ventures. Although theoretically the variables examined by human-capital and labor-market segmentation theorists can be applied to analyze the economic status of self-employed *individuals*, the U.S. Census Bureau's databases on the self-employed do not provide net income figures by the particular type of business; mean income figures are disaggregated by ethnicity to the two-digit Standard Industrial Classification (SIC) code level. Thus, only through survey research could I gather information on the net family income of the self-employed by the particular type of business. The disaggregated

level of detail needed to analyze the income mobility of Puerto Rican bodegueros is not available through the databases of the U.S. Census Bureau.

## CHAPTER 2:

### A PROFILE OF THE PUERTO RICAN BODEGUEROS IN SOUTH BROOKLYN<sup>9</sup>

The geographic area of South Brooklyn that this study primarily focused on was bordered by: from north to south, Atlantic Avenue to Sackett Street; and from east to west, Nevins Street to Smith Street; it is the section of Cobble Hill/Carroll Gardens where the majority of Puerto Ricans in South Brooklyn reside. I also surveyed grocery stores on Columbia Street which is a commercial strip five blocks west of Smith Street. Within these sections of South Brooklyn, there were 45 grocery stores at the time the interviews were conducted, 8 of which were Puerto Rican-owned. I interviewed six out of the eight remaining Puerto Rican bodegueros in the neighborhood. I was able to identify the nationality of the store owners through a combination of a family contact who personally knew some of the owners, and by going from store to store, asking the person at the counter if they were the owner and then asking them their and/or the owner's nationality. Four of the interviews with the Puerto Rican owners were set up by my family contact. The other two I arranged myself during the process of going from store to store investigating the nationality of the store owners.

According to Athey (1991), the customers of Puerto Rican bodegas are usually repeat customers who live within a four-square-block radius. They shop at the stores because of convenience (i.e., due to the close proximity to their residences). In addition, there is a consistent demand for groceries and food at the neighborhood level in urban areas.

#### CASE 1:

Pedro Hernandez, 51, is married and has three daughters and one son (ages 30, 25, 24, 18). Mr. Hernandez's highest educational level attained was the 7th grade. His occupation in Puerto Rico was an agricultural laborer. Mr. Hernandez migrated to NYC in search of better economic opportunities in 1967 at the age of 23. He has never migrated back to Puerto Rico other than to vacation. When he does vacation in Puerto Rico, his wife takes responsibility for managing the grocery store.

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<sup>9</sup>The names of the bodegueros have been changed to fictitious ones for confidentiality reasons.

Upon his arrival to NYC in 1967 until 1975, Mr. Hernandez was a paid employee at his brother's bodega located on the Smith Street commercial strip in the Cobble Hill neighborhood of Brooklyn. He began renting the grocery store from his brother from 1975 until 1991, when he finally purchased it. Economic independence (i.e., "be his own boss") and higher financial compensation were his rental and ownership motivations. According to Mr. Hernandez, he currently earns a mean annual net income of between \$20,000 and \$40,000.

Mr. Hernandez chose to own a grocery store rather than some other type of business because he had the opportunity to buy through his brother. The location of the bodega in Cobble Hill was also determined by the opportunity to purchase the store.<sup>10</sup>

Since his arrival to NYC in 1967, Mr. Hernandez has lived in Cobble Hill where the store is located. He chose this neighborhood to live in because his brother and his family had already migrated there.

In terms of finance, Mr. Hernandez was able to purchase the store and the building in which it is located through a no-interest, payment plan offered to him by his older brother. His access to credit amounts to supplier credit; that is, accounts payable within 30 days of purchase with a two-percent discount for full payment made within seven days.<sup>11</sup> Mr. Hernandez is not interested in bank credit given that he can borrow from his family members at no interest.

The economic value of the bodega represents about 20-25% of his total assets, which consist of the building where the store is located, his home, and a savings account. In his view, the business is stable because he has never filed or come close to filing for bankruptcy, and he has never experienced a problem with crime in the neighborhood.

There are two full-time, paid employees in the bodega, both of whom are Mr. Hernandez's daughters whose ages are 25 and 24. On average, his daughters work in the bodega ten hours per day, five days per week. In the past, all of his children have worked in the bodega as teenagers especially during school vacations. During the school year, they worked on average two

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<sup>10</sup>Mr. Hernandez's brother was an employee of the previous owner, who was an unrelated co-national. Thus, he too chose to own a grocery store in Cobble Hill over some other type of business because he was given the opportunity to purchase it.

<sup>11</sup>All of the bodegueros interviewed had the same terms with suppliers.



to three hours per day, four days per week, and three to five hours per day, five days per week during vacation periods. Mr. Hernandez paid them allowances.

All three of his daughters are high school graduates. Mr. Hernandez's son is currently a high school senior and has applied to college; he will pursue his bachelor's degree if he receives a scholarship. Mr. Hernandez feels that he cannot afford to finance his son's higher education directly from the income generated from the bodega.

The oldest daughter, who is 30, is an office manager for a company in Puerto Rico; Mr. Hernandez believes that her annual income is higher than his given that she is an office manager with computer skills. The two other daughters (25 and 24), who work in the bodega, earn less income than he does. The son obviously earns less income than Mr. Hernandez given that he is still a high school student.

#### CASE 2:

Juan Garcia, 51, is divorced and the father of three daughters (ages 31, 27, 22). Mr. Garcia is a high school graduate. In 1962, within a year after high school graduation, he migrated to NYC. Prior to migrating to NYC, Mr. Garcia worked for several months as an employee of a grocery store in Puerto Rico. He migrated to NYC because he felt that there were better career opportunities there. Originally, Mr. Garcia intended on going to college in NYC. However, he got married and had his first child by the age of 20 and, therefore, abandoned the idea of going to college. Mr. Garcia has never migrated back to Puerto Rico other than to vacation.

Since his arrival (1962) until 1982, Mr. Garcia worked as a factory worker for a company located in Manhattan. He began working in his current store as a part-time paid employee in 1980. Mr. Garcia was not related to the former owner. When the factory that he was employed in closed in 1982, he began working in the bodega as a full-time paid employee. Mr. Garcia had been employed for 13 years in the store when the opportunity to purchase the bodega arose in 1993. The previous owner sold the store to his own brother in 1991 upon his retirement. This new owner, who owed back taxes to the Internal Revenue Service (IRS), registered the bodega under Mr. Garcia's name in order to evade the IRS. There was an informal agreement between the new owner and Mr. Garcia by which Mr. Garcia would be paid a higher

salary if he allowed the store to be registered under his name. It was also agreed that Mr. Garcia would be paid directly by the new owner the annual income tax. However, between 1991 and 1993, Mr. Garcia never received any money from the new owner for the income taxes due. Thus, in 1993 a mutual agreement was made between the new owner and Mr. Garcia in which Mr. Garcia could keep the store if he could come up with a cash payment of several thousand dollars. Mr. Garcia borrowed the money from a loan shark in order to purchase the bodega.

Mr. Garcia's ownership motivation was that it was a better income-earning opportunity than working as a manual laborer in a factory. According to Mr. Garcia, he earns between \$40,000 and \$60,000 per year in mean net income. In his view, owning a grocery store was a better occupation because it did not entail hard physical labor.

Mr. Garcia chose to own a grocery store rather than some other type of business because of the opportunity and terms for buying. The location was also determined by the opportunity to purchase the bodega.

Since he began working in the grocery store part-time in 1980, Mr. Garcia has lived in Carroll Gardens. He moved from Manhattan to Brooklyn because of cheaper rent costs for apartments.

In terms of finance, Mr. Garcia relies on supplier credit. Mr. Garcia has previously applied for bank financing; however, he was turned down because he did not have a credit history.

The grocery store is Mr. Garcia's sole asset. In his view, the bodega is a stable business. Mr. Garcia has never had to file for bankruptcy due to a lack of income generation from the store nor has he had any direct experience with crime. The unpaid taxes from the 1991-1993 period have caused serious problems for him to the point that he feels that it may lead him to bankruptcy. In fact, in March of 1995 Mr. Garcia's bodega went out of business.

Until its closure, Mr. Garcia worked full-time in the bodega and employed one part-time employee (approximately 20 hrs./week) who was not related to him. As we can see, Mr. Garcia's bodega was not a family-operated business, although it once was because the brother of the retiring owner was a paid employee until he became the owner himself.

Mr. Garcia's three daughters are high school graduates. The three of them are homemakers. Thus, while his store was in operation, Mr. Garcia earned a higher monetary income than his three daughters.

### CASE 3:

Roberto Martinez, 58, is married and has three sons and two daughters (ages 39, 34, 33, 29, 28). His highest educational level attained was the 10th grade. In Puerto Rico, Mr. Martinez's occupations were shining shoes, selling oranges, and as a paid employee at his uncle's grocery store in the countryside. He migrated to NYC in 1956 at the age of 20. Because of his family's adverse economic situation in Puerto Rico, Mr. Martinez decided to migrate to NYC to earn money to send back to his family in Puerto Rico. Mr. Martinez has never migrated back to Puerto Rico other than to vacation. His wife tends to the store when he vacations in Puerto Rico.

When he arrived in NYC in 1956, he began working as a manual laborer in a factory for two and a half years. Thereafter, Mr. Martinez worked as a full-time, paid employee for a bodega in Cobble Hill. He was not related to the owner. This bodega eventually became the first store that he owned. Between 1959 and 1966, Mr. Martinez owned three different small businesses, two of which were grocery stores and the other being a butcher store. He sold the two grocery stores for several thousand dollars and was bankrupted by the unsuccessful butcher store. In 1966, Mr. Martinez began working in his current bodega as a full-time, paid employee (he was not related to these owners either). In his view, the grocery store was not being managed well and was losing money. The then owners offered to sell it to him in 1967 if he could come up with a \$5,000 cash advance; they would let him pay the remaining \$13,000 in monthly installments. Mr. Martinez used \$1,000 of his savings and formed a partnership with a friend to raise the additional \$4,000 cash payment required for the purchase. He eventually bought out his partner.

Economic independence and higher financial compensation were his ownership motivations. According to Mr. Martinez, the bodega provides him with a mean annual net income between \$20,000 and \$40,000.

The types of businesses that he has owned were determined by the opportunity to purchase. The locations of the stores were also determined by

the opportunity to buy, given that these stores were purchases and not start ups. Three of the four small businesses were located in Cobble Hill.

For the past 34 years, Mr. Martinez has lived in Cobble Hill; in fact, he lives in the same building where the store is located. Mr. Martinez chose to live in this neighborhood because his family had originally migrated there.

With respect to financing, he has access to supplier credit. In the past, Mr. Hernandez has applied for business loans through private banks; he felt that the interest rates were too high, banks required too much collateral, and the applications were too time consuming. In his view, it is easier to take out second mortgages than to borrow directly for his business. Recently, Mr. Martinez has been approved for a \$50,000 Small Business Administration (SBA)-guaranteed loan for leasehold improvements and to purchase inventory. He has borrowed through the SBA loan guarantee program in the past.

The bodega represents about 20% of his total assets, which consist of three residential/commercial buildings<sup>12</sup> (including the building where his store is located) and a savings account. According to Mr. Martinez, the grocery store is a stable business: he has never filed for bankruptcy; and he has never been victimized by crimes such as armed robbery or burglary.

Currently, there are no paid employees in the Martinez bodega. Mr. Martinez and his wife are the only ones to work in the bodega. In the past, however, there have been paid employees who were not relatives, as well paid workers who were family members. Mr. Martinez's brother and his children have worked in the store. He paid his brother more than full-time employees who were unrelated. During their school vacations, his children, as teenagers, worked in the store from three to five hours per day, four days per week; they were paid, but at lower rates of compensation than unrelated employees.

All of Mr. Martinez's children are high school graduates. Three of his five children (ages 39, 33, 28) are college graduates and one (age 29) attended college for two years; the other is a high school graduate. Their occupations are: accountant, mailman, public policy analyst, financial manager, and business manager. According to Mr. Martinez, all of his children earn higher

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<sup>12</sup>By a residential/commercial building, I mean an apartment building with a store on the first floor.

incomes than he does if you compare their salaries to his business income. Accounting for his rental income from his real estate properties, he earns much more income than his sons and daughters.

#### CASE 4:

Mr. Rafael Santiago, 46, is married and has four sons and five daughters (ages 20, 19, 18, 16, 16, 15, 12, 8, 6). Mr. Santiago is a high school graduate. In Puerto Rico, his occupation was a carpenter. In 1969, at the age of 21, Mr. Santiago migrated to NYC in search of better economic opportunities. From 1978 to 1981, he moved back to Puerto Rico; since then, Mr. Santiago has returned to Puerto Rico only to vacation. When he does vacation, his brother-in-law and wife tend to the store.

After arriving in NYC in 1969, he worked as an informal carpenter<sup>13</sup> and as a mechanic. During his return migration to Puerto Rico (1978-81), Mr. Santiago and his wife won a lawsuit for \$20,000 from an auto accident case. They decided to move back to NYC and invest the money in a business. Thus, in 1981 they used the \$20,000 to start up their current grocery store.

Mr. Santiago and his wife decided to own a bodega instead of other types of businesses because they could afford the start-up costs. Economic independence and higher financial compensation were their ownership motivations. According to Mr. Santiago, the mean annual net income derived from the business ranges between \$20,000 and \$40,000.

The location decision for the store was based on the neighborhood's "tranquillity" (i.e., low crime rate), the affordability of the store in terms of monthly rent, and attractive lease terms. Although the Santiago family does not live in the neighborhood where the store is located, they have lived in an adjacent neighborhood, Red Hook, from 1969 until 1978, and from 1981 to 1987. Mr. Santiago originally chose to live in Red Hook because of the previous settlement of his extended family in that neighborhood.

In terms of finance, the Santiagos have access to supplier credit. Mr. Santiago feels that he has not had a need for a business loan from a bank, although he does believe that he could borrow if it were necessary.

The bodega represents 25% of the family's assets, which include a home and a savings account. Mr. Santiago believes that the bodega is a stable

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<sup>13</sup>He could not pass the licensing exam in English.

business, because he has never had to file for bankruptcy, and he has no firsthand experience with crime.

There are no unrelated, paid employees working in the Santiago bodega. Mr. Santiago and his wife have always worked the store themselves. Mrs. Santiago's brother works in the bodega at nights for monetary compensation when Mr. Santiago vacations in Puerto Rico. According to Mr. Santiago, his children have never worked in the store.

All of the Santiago children are still students. The eldest three (ages 20, 19, 18) are still in high school. Only the 18-year old son has applied to college. Obviously, the income and occupational mobility of the children relative to the parents are not relevant in this case.

#### CASE 5:

Mrs. Maria Gonzalez, 62, is married and is the mother of three sons (ages 39, 38, 36). She is a high school graduate. Interestingly, Mrs. Gonzalez was born and raised in NYC. Her parents migrated to NYC in the late 1920s also in search of better economic opportunities. Mrs. Gonzalez's father was a factory worker and her mother was a homemaker.

Prior to owning her own business, Mrs. Gonzalez worked as a seamstress in the garment industry in Manhattan for ten years. In 1960, at the age of 28, she started a candy and toy store in the location of her current grocery store. Initially, Mrs. Gonzalez's ownership motivation was not economic independence or higher financial compensation, but rather to spend more time with her three sons who were pre-school ages (5, 4, 2) at the time; she was also interested in operating a business because she enjoyed conversation and contact with people. In 1975, when her husband came into the business with her, they expanded the store into a grocery store in order to increase sales so that they could finance the higher education of their sons. Presently, the mean net income derived from the bodega ranges from \$20,000 to \$40,000 per year.

The location of the store was chosen by the opportunity to rent. The store was located in the apartment building in which the Gonzalez family resided. The landlord, who was a personal friend, offered to rent the vacant store to her.

Mrs. Gonzalez has lived in Cobble Hill where the store is located for 49 years and in the same building as the store for about 35 years. In other words, she has lived in the neighborhood since her childhood.

Regarding financing, Mrs. Gonzalez was able to start up the store with her own savings accumulated while she was a seamstress in the garment industry. The rent for the store was not very expensive in 1960 and Mrs. Gonzalez knew candy and toy suppliers personally who provided her with credit for purchasing inventory. She is content with her current access to supplier credit for the bodega and feels that she has not had the need to take out a business loan from a bank. Mrs. Gonzalez believes that she could borrow if she so chooses, but she is too “conservative” to do so.

The economic value of the bodega represents about 25% of her and her husband’s net worth, which include the apartment building in which the store is located, and a savings account. Mrs. Gonzalez has never filed for bankruptcy. Although she and her husband have been victimized by armed robbers twice<sup>14</sup> and burglars ten times, Mrs. Gonzalez does not perceive crime as a problem. In her view, 12 incidents in 35 years did not have a detrimental impact in terms of lost income, and she thinks that crime is probably a bigger problem in other neighborhoods in NYC. This is why the Gonzalez family chose not to relocate the bodega.

The Gonzalez bodega has never had paid employees who were not relatives. Currently, Mrs. Gonzalez and her husband are the only persons who work in the store. In the past, Mrs. Gonzalez’s mother and her three sons worked in the bodega. However, they were all paid for their labor. As teenagers, the sons worked 14-15 hours per week and were paid an allowance in order to teach them a good work ethic.

All of the sons are high school graduates; two of the sons are college graduates. The eldest son, who is deceased,<sup>15</sup> was a practicing Medical Doctor. The youngest son (age 36) is a laboratory technician at a hospital in the Bronx. The high school graduate (age 38) is currently committed to a mental institution because of a serious problem with drug abuse. According to Mrs. Gonzalez, her youngest son, who is a lab technician, earns more income

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<sup>14</sup>In fact, both times her husband was shot at, but not injured.

<sup>15</sup>He would have been 39 years old.

through his salary than the income that she and her husband earn through the bodega.

#### CASE 6:

Manuel Campos, 67, is married and has two sons and three daughters (ages 41, 38, 35, 33, 26). Mr. Campos' highest educational level attained was the 9th grade. In Puerto Rico, his occupation was a baker. In 1945, at the age of 17, Mr. Campos migrated to NYC because his family had convinced him that there were better economic opportunities in NYC, and they had invited him to stay with them. He has never migrated back to Puerto Rico other than to vacation. When Mr. Campos vacations in Puerto Rico, his brother manages the store.

After settling in NYC in 1945, Mr. Campos worked as a dishwasher in a restaurant for two and a half years while he went to night school to learn English. He then became a cigarette salesman for four years. Seven years after migrating to NYC, Mr. Campos purchased his first business, which was a gas station. He was able to purchase the business with his savings and by borrowing from family members. In 1966, Mr. Campos started up his current bodega in Carroll Gardens with savings accumulated from his gas station. He sold the gas station because of the high maintenance costs.

Economic independence and higher financial compensation were his ownership motivations for both the gas station and the bodega. Mr. Campos felt that the only way for him to succeed economically in the United States was to be a business owner. Currently, his mean net income ranges between \$60,000 and \$100,000 per year.

Mr. Campos became interested in owning a grocery store through his contact with bodegueros as a cigarette salesman and because of the low start-up costs involved. At first, he only sold about four or five common household products, such as soda, milk, and toilet paper, and his monthly rent was not very expensive.

Since 1951, Mr. Campos has lived in the neighborhood where his store is located. In fact, he presently lives in an apartment above the store. Mr. Campos prefers to live in the neighborhood because he does not want to spend time commuting back and forth to the store.

With respect to financing, Mr. Campos had applied for a bank loan to purchase the gas station and was denied it; he has never applied for bank



financing for his bodega. Suppliers provide him with his current credit needs. Mr. Campos feels that there has not been a need for him to apply for a business loan from a bank for the grocery store. He believes that he would not be approved for a business loan if he applied because he thinks his business is too small.

The economic value of the bodega represents 60% of his total assets, which include a farm in Puerto Rico and a savings account. According to Mr. Campos, the bodega is a stable business. He has never filed for bankruptcy. Although he has been victimized by armed robbers 17 times, Mr. Campos does not perceive crime to be a problem in the neighborhood. In his view, the criminals have all come from outside of the neighborhood; he claims that they were “black people from the [Red Hook housing] projects.” Anyhow, Mr. Campos feels that 17 incidents are infrequent given that his bodega has been in business for close to 29 years.

There are four part-time employees in Mr. Campos' bodega; one is his wife to whom he does not pay a salary, and the other three are his brothers who are paid. Mr. Campos has never employed persons who were not relatives. In the past, all of his children have worked in the bodega as teenagers for four hours per day without being compensated. In his view, he did not pay them because he was teaching them a work ethic, paid for their private school education and college, and fed and clothed them.

All of Mr. Campos' children (ages 41, 38, 35, 33, 26) are high school graduates, and four out of five of them are college graduates. Their occupations are: accountant, business manager, construction worker, homemaker, and stockbroker. According to Mr. Campos, except for the homemaker and construction worker, his children earn higher incomes than he does through the store.

## CHAPTER 3: FINDINGS

I summarize my findings from these six interviews in Table 3. The age distribution of the bodegueros is as follows: three are in their fifties; two are in their sixties; and one is in his forties. In terms of migration period, one bodeguero migrated in the 1940s, one in the 1950s, three in the 1960s, and one was born in NYC in the early 1930s. Three of them began operating their current stores in the 1960s, one in the 1970s, one in the 1980s, and one in the 1990s.<sup>16</sup> Three bodegas were start ups and three were purchased by the current owners from other Puerto Ricans; only Mr. Hernandez purchased his store from a relative. It is evident that these bodegueros represent the first two generations of Puerto Rican migrants to NYC in the Post War period. Given that these are the remaining Puerto Rican bodegas in the community and that none of the stores was inherited, Puerto Rican ownership of grocery stores seems to have come to an end in the Cobble Hill/Carroll Gardens area of South Brooklyn for the Puerto Rican community. In fact, about 30 bodegas are now owned by Dominicans. I will look at this ethnic ownership turnover issue in the next chapter of this thesis.

As for the educational and occupational backgrounds of the bodegueros, none of them have any higher educational experience nor did any of them previously own a business in Puerto Rico. Three store owners graduated from high school; two did not finish their secondary education; and one did not complete his primary education. The occupations of the bodegueros in Puerto Rico before migration were: agricultural laborer, grocery clerk, shoe shiner/orange vendor/grocery clerk, carpenter, and baker. Apparently, they were from working class backgrounds with low to moderate levels of educational attainment. This would suggest that their current status as business owners in NYC is evidence of social mobility.

In terms of income mobility, four bodegueros claimed that they earned mean net incomes of between \$20,000-\$40,000 annually; one reported earning between \$40,000-\$60,000; and one estimated that he earned between \$60,000-

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<sup>16</sup>By operating, I mean managing the store and directly benefiting from and controlling the allocation of the income stream derived from sales. It is important to make this distinction from ownership because Mr. Hernandez only purchased his bodega in 1991 even though he began renting it from his brother in 1975.

**Table 3: Select Summary of Characteristics for Puerto Rican Bodegueros in South Brooklyn, 1995**

Bodeguero	Age	Occupation in Puerto Rico	Year of Migration	Migration Motivation	Return Migration	Business Ownership in Puerto Rico	Year Began Operation	Start up/ Purchase	Ownership Motivation
Mr. Hernandez	51	Agricultural Worker	1967	Economic Opportunities	No	No	1975	Purchase	Economic independence, higher financial compensation
Mr. Garcia	51	Grocery Clerk	1962	Economic Opportunities	No	No	1993	Purchase	Economic independence, higher financial compensation
Mr. Martinez	58	Grocery Clerk/Shoe Shining/Orange Vendor	1956	Economic Opportunities	No	No	1967	Purchase	Economic independence, higher financial compensation
Mr. Santiago	46	Carpenter	1969	Economic Opportunities	Yes	No	1981	Start up	Economic independence, higher financial compensation
Mrs. Gonzalez	62	n/a	n/a	n/a	n/a	No	1960	Start up	Raise children while working
Mr. Campos	67	Baker	1945	Economic Opportunities	No	No	1966	Start up	Economic independence, higher financial compensation

Source: Interviews conducted by the author during January through March of 1995  
n/a= not applicable

**Table 3: Select Summary of Characteristics for Puerto Rican Bodegueros in South Brooklyn, 1995 (Continued)**

Bodeguero	Family Operated Bodega	Mean Annual Net Income	Basis for Owning Bodega	Basis for Store Location	Neighborhood Residency	Method of Financing Initial Capital Investment	Store as % of Net Worth	Filed for Bankruptcy	Frequency of Criminal Incidences	Educational Attainment	Number of Educated, Profess. Children
Mr. Hernandez	Yes	\$20-40K	Chance to buy	Chance to buy	Yes	Loan from family	20-25%	No	0	7th grade	0
Mr. Garcia	No	\$40-60K	Chance to buy	Chance to buy	Yes	Loan shark	100%	Yes	0	High School Graduate	0
Mr. Martinez	Yes	\$20-40K	Chance to buy	Chance to buy	Yes	Savings, partnership, informal contract	20%	No	0	10th grade	3
Mr. Santiago	Yes	\$20-40K	Low costs, low crime, good lease	Low costs, low crime, good lease	No	Auto insurance payment	25%	No	0	High School Graduate	0
Mrs. Gonzalez	Yes	\$20-40K	Finance sons' college education	Chance to rent, expansion of existing store	Yes	Savings, supplier credit	25%	No	12	High School Graduate	2
Mr. Campos	Yes	\$60-\$100K	Low costs, good lease, personal contacts	Personal residency	Yes	Savings	60%	No	17	9th grade	4

Source: Interviews conducted by the author during January through March of 1995  
 Profess.= Professional  
 n/a= not applicable

\$100,000.<sup>17</sup> Their aggregate mean family income is \$41,667. Further, five of the six bodegueros own other assets such as homes, commercial buildings, and farms in addition to having savings accounts. They certainly seem to have achieved a middle-class income status. In 1989, the mean income of Hispanic households headed by persons between the ages of 45 and 74 within the community was \$32,980 (1994\$), which was only \$64 higher than the mean income of all Hispanic households (U.S. Census Bureau 1990).<sup>18</sup> This seems to suggest that the grocery store owners have a higher income mobility than laborers.

All five grocery-store owners who were born in Puerto Rico chose to migrate to NYC because they believed that there were better career and economic opportunities in the United States. One owner specifically migrated so that he could earn money to send back to Puerto Rico to alleviate the adverse economic situation of his family on the island. Another bodeguero originally intended on pursuing his college education in NYC. Interestingly, four of the five bodegueros born in Puerto Rico have never moved back to Puerto Rico. The only store owner to move back to Puerto Rico, Mr. Santiago, decided to relocate again to NYC when he and his wife

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<sup>17</sup>There is a serious possibility that several of the bodegueros underestimated their mean net income range. I make this inference because of the locations of the stores and number of persons that each employ. Three of the bodegas are located on the same commercial strip (Smith St.) within a few blocks of each other. Mr. Garcia, who only had one part-time paid employee, said that he earned \$40,000-\$60,000 annually. Mr. Hernandez, who has two full-time paid employees, reported that he earns between \$20,000 and \$40,000. Mr. Martinez, who co-manages the store with his wife and has no paid employees, claimed that he makes between \$20,000-\$40,000, yet he has the largest store and owns the most assets (three commercial/residential buildings). Because the bodegas are cash businesses, they probably told me what they report on their income taxes in case they suspected me of working for the IRS with the pretense of being a student.

<sup>18</sup>I calculated this figure by aggregating the data for six census tracts (#s: 41, 43, 47, 69, 71, 75) that represent the geographic area where the Puerto Rican community resides in South Brooklyn (Hereafter all census data for South Brooklyn presented are aggregations of figures from these tracts). I had to use the umbrella category of Hispanic because the income data are not disaggregated by Hispanic national origin groups. Puerto Ricans represented 69.1% of the total Hispanic population for the above listed census tracts in 1990. The income data also do not differentiate between income earned in the labor market vs. self-employment by ethnicity. However, I assumed that the data are sufficient proxies for wage and salary income given that on a national level about 1% of the Puerto Rican population in the United States was self-employed in 1987 (Waldinger and Aldrich 1990: 56). Another limitation is that the mean income data for Hispanic families are not available for two of the census tracts because the data are based on sample and subject to variability; thus, I decided to use mean household income data. In 1990, there were 2.9 persons per Hispanic household and Hispanic family households accounted for 68.6% of the total Hispanic households.

decided to invest their money (that they had won from an auto accident law suit) in starting a business. These findings seem to indicate that bodegueros were less likely to migrate back to Puerto Rico because they had achieved a middle-class income status through self-employment. Some analysts have argued that “circular” migration is caused by unemployment; that is, when a person faces extended periods of unemployment he or she is more likely to migrate either from NYC to Puerto Rico or vice versa (Meléndez 1993; Rodríguez 1993). The evidence of this study seems to support this thesis; the self-employed have no reason to migrate if their businesses are stable in terms of generating steady streams of income.

With respect to the question of why the bodegueros chose to own a grocery store rather than another type of business, market research and analysis did not figure into the decision-making process. The three owners who purchased existing stores were previously employees in the bodegas; they chose to own grocery stores because the previous Puerto Rican owners offered to sell them the stores. Two bodegueros chose to own grocery stores because of low start-up costs. The other owner decided to expand her candy and toy store into a grocery store to increase sales in order to finance her sons' education. Perhaps this lack of market research and analysis explains, in part, why minority-owned businesses tend to be in the retail and service sectors. In this study, the type of business was chosen by the opportunity to buy, low start-up costs, and through business expansion.

For five of the six bodegueros, economic independence and higher financial compensation were their ownership motivations. Interestingly, only the woman entrepreneur did not have an economic motivation; she chose to start her own business so that she could spend more time with her young sons. This indicates that the majority of the bodegueros whom I interviewed perceived business ownership as a route to attain socio-economic mobility. Although Mrs. Gonzalez's ownership motivation was not strictly economic, she did achieve a middle-class income status nonetheless.

The locations of the stores were not determined by market research and analysis either. As mentioned above, three bodegas were purchases; thus, the locations were chosen by previous owners. The location of two of the stores that were start ups were heavily influenced by inexpensive leases and the fact that they were located in the neighborhood in which the owners lived. The other owner chose the location because of a combination of the “tranquillity”

of the neighborhood, low monthly rent, and because the store was located in an adjacent neighborhood where he once lived. This lack of market research and analysis in determining location might also contribute in part to the concentration of minority-owned businesses in the retail and service sectors.

Regarding personal residency, the majority of the bodegueros lived within the neighborhood where the stores are located. Five owners live within the community. They have lived there prior to owning their stores. Three of them actually live in apartments above the stores. The number of years that they have lived in the community ranges between 15 and 49 years. Two bodegueros moved to the neighborhood because their families already lived there; one has lived in the community since childhood; another chose to live there because of lower rent costs relative to Manhattan; and one lives in the neighborhood because he does not want to spend time traveling back and forth between his residence and business. The only bodeguero, who does not actually live within the community did live in the adjacent neighborhood of Red Hook for 15 years. These findings and census data suggest that there are at least three classes of people within the Puerto Rican community of Cobble Hill/Carroll Gardens: small business owners (or "petty bourgeoisie"), professional workers, and laborers. They also suggest that the community's middle class is relatively small given the fact that 8.7% of Hispanics within the community hold executive, administrative, and managerial occupations, and 9.1% hold professional specialty occupations; the corresponding figures for these two occupational categories for the white population of South Brooklyn are 18.3% and 39.9% respectively (U.S. Census Bureau 1990). In addition, middle-class business owners do not necessarily live in or remain residents of the community due to ethnic pride and reciprocal social relationships.

All of the owners gathered the initial investment capital to start or buy their stores through modest amounts of savings, borrowing from family members, and/or informal contracts. Mr. Hernandez financed his store through a no-interest payment plan offered to him by his brother. Mr. Garcia borrowed from a loan shark. Mr. Martinez combined his personal savings with a loan from a friend and was given a payment plan by the former owners. Mr. Santiago and his wife used the money won in a law suit in Puerto Rico as investment capital. Mrs. Gonzalez utilized her savings earned in the labor market and her personal relationships with suppliers to purchase

inventory on credit to finance the start-up costs. Through savings accumulated from his previous business, Mr. Campos financed his start-up costs. In terms of working capital financing, all of the bodegueros have access to supplier credit. Only Mr. Martinez has applied for and received working capital loans for inventory purchasing and storefront improvements through the SBA loan-guarantee program. The others were not really interested in bank financing for working capital needs because they have supplier credit. What these scenarios suggest is that the purchases had flexible financing terms and that the start ups took place when costs were modest in the 1960s (except of course for the Santiagos). If businesses are more expensive to purchase or start in the 1990s, personal savings may not be sufficient and/or may take too long to accumulate in order to finance business ownership opportunities among Puerto Rican laborers.<sup>19</sup> This is probably true given that in this study personal savings in most of the cases seemed to be insufficient to facilitate ownership opportunities.

Apparently, the remaining Puerto Rican bodegas in the community seem to be stable businesses. Five of the bodegueros owned other assets (usually a home and a savings account); four owners reported that the stores represented 20-25% of their total net worth; one stated that his store comprised 60% of his total net worth. Five of them have never filed for bankruptcy. Only Mr. Garcia owned no other assets and filed for bankruptcy. However, he only owned his bodega for two years and he owed two years back taxes (which forced him out of business) not to mention several thousand dollars owed to a loan shark.<sup>20</sup>

Four of the six have never had any experience with crime. Although two of the bodegueros have encountered 12 and 17 incidents of crime respectively, they do not feel that crime is a problem in the community because they consider this to be infrequent given that they have been in business for thirty years or more.<sup>21</sup> Before going out of business, Mr. Garcia was never

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<sup>19</sup>This assumes that a worker does not have a high salary and faces NYC's high cost of living. Professional workers probably would not be inclined to own grocery stores.

<sup>20</sup>As mentioned above, his tax problems were caused by his imprudent arrangement to help the previous owner evade paying his back taxes to the IRS.

<sup>21</sup>Their victimization is probably related to the fact that their stores are located on side streets and they are open until the late evening hours. The other stores are located on commercial strips and close by 7:00 PM. Mrs. Gonzalez is the only bodega owner to be victimized



victimized by crime and his store did not suffer from a lack of income generation.<sup>22</sup> In sum, these findings on crime and assets and the fact that these stores have been in operation under the management of the current owners between 14 to 36 years indicate that they are stable businesses.

Most of the bodegas are family operated. Five of the six stores are and have always been family run; three are managed by a husband and wife; one store is operated by a father and two adult daughters; in one family-run bodega, a husband and wife as well as three brothers of the husband (on part-time bases) manage the store. Mr. Garcia was the only bodeguero to recently have an unrelated paid employee although in the past Mr. Martinez has also hired unrelated paid help. Interestingly, Mr. Hernandez pays his daughters full-time wages and Mr. Campos pays his three brothers for their part-time labor. The bodegas that are operated solely by a husband and wife are partnerships where no wages are paid. Additionally, in the past, in four of the six bodegas the children worked in the stores as teenagers on part-time bases where, except for one case, they were paid allowances. These findings suggest that within the immediate family, when the children are still young household members, the businesses are viewed and run as a partnership that benefits the entire family where the income is not distributed in any proportional way. As adults, however, the children are paid wages. Given that prior to the teenage years the children did not work in the stores and that the bodegas remained in business after the children became adults and were no longer workers, the survival of the businesses and the income mobility of the parents do not seem to be entirely dependent on the "self-exploitation" of family labor. The fact that extended family members (i.e., brothers) are paid wages also contradicts the "self-exploitation" thesis argued by some analysts (Waldinger and Aldrich 1990). Family labor is probably utilized because of issues of trust, reciprocity, and to lessen the working hours of the owners.

Business ownership seems to increase the probability that the following generation will attain occupational and income mobility; yet this is by no means a deterministic relationship. The personal will of the children to pursue higher education must be considered regardless of their parents' aspirations for them. Three of the six bodegueros have sons and daughters

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by burglars (10 times!); this suggests that her security system was inadequate. Mr. Campos was victimized by armed robbers but not by burglars.

<sup>22</sup>Recall that he reported earning the second highest net annual income range: \$40,000-\$60,000.

that are college-educated professionals. Two other store owners each has a son who has applied to college and is awaiting admissions decisions. Tables 4 and 5 show the educational attainment of Hispanics within the community and of the sons and daughters of the bodegueros respectively. Data in these tables seem to suggest that the children of business owners have a much greater probability of graduating from high school and college. According to the bodegueros, their professional sons and daughters earn higher incomes than they do. Four of the grocery store owners have at least one son or daughter that earns more than they do. Not only are the offspring of the bodegueros more likely to achieve occupational and income mobility, they also stand to inherit their parents' estates.

**Table 4: Hispanic Educational Attainment in South Brooklyn (Persons 25 and over), 1990**

Educational Level	South Brooklyn (# of persons)	South Brooklyn (% distribution)
Less than 9th grade	1128	30.6%
9th-12th grade, no diploma	1071	29.0%
High school graduate (includes equivalency)	705	19.1%
Some college, no degree	301	8.2%
Associate degree	166	4.5%
Bachelor's degree	225	6.1%
Graduate or professional degree	95	2.6%
Total	3691	100.0%
High school graduate or higher	1492	40.4%
Bachelor's degree or higher	320	8.7%

Source: U.S. Census Bureau 1990

Note: The Census Bureau does not disaggregate decennial educational attainment data by specific age groups. Therefore, census data of a similar age cohort group as that of the children of the bodegueros are not available for a more accurate comparison.

**Table 5: Educational Attainment of the Offspring of Puerto Rican  
Bodegueros in South Brooklyn (Persons 25 and over), 1995**

Educational Level	South Brooklyn (# of Persons)
High school graduate	9
College graduate	9
Total	18
Percent high school graduate or higher	100%
Percent college graduate	50%

Source: Interviews conducted by author during January through March of 1995

## CHAPTER 4:

### ANALYSIS OF CASES AND CONSTRAINTS ON SMALL-BUSINESS OWNERSHIP OPPORTUNITIES

My explanation for the higher income mobility of Puerto Rican bodegueros relative to Puerto Rican laborers lies in the variable of property ownership. The premise here is that the initial endowment of capital is crucial in defining who attains more upward income mobility through self-employment. This is so because of the political, institutional, and organizational context that constrains opportunities for property accumulation.

This context has been shaped by the legacy of the institution of discrimination on the basis of race, social and economic class, as well as gender. That is, discrimination is an institution in the sense that it is a formal or informal code of behavior or set of rules (North 1990; Polenske 1995). This discriminatory behavior manifests itself in the actions of politicians and government officials, leaders of private firms and organizations, and private citizens especially on an informal level as they internalize the values of prejudice. Redlining is a case in point where private citizens who work for banking and financial organizations in positions of authority refuse to lend or provide services to certain populations because of preconceived prejudicial assumptions about these groups of people (Litvak and Daniels 1979; Parzen and Kieschnick 1992). Discrimination even manifests itself formally. This is evident in the historical pattern of nativism in which private and public individuals and groups call for the reform of immigration laws to restrict immigration from Third World countries during times of recession and high unemployment. The roots of discrimination in the United States dates back to the relationship between the British colonialists and the Native American Indians in the 17th century and is deeply ingrained in the contemporary culture of the United States (Jacobs 1971; Blauner 1972). The end result for immigrant communities of color in the United States has been blocked socioeconomic opportunities especially in the labor markets.

These premises are contrary to the dominant ideology of capitalism derived from the writings of John Locke and Jeremy Bentham. These writers did not perceive the initial endowment of capital as being important because property accumulation is a product of one's labor (Locke 1978; Bentham 1978).

According to Locke, property accumulation is a matter of will and the possibilities for accumulation are limitless; no one is harmed by the creation of wealth through property accumulation. Both Locke and Bentham assume that there is equality of opportunity for property accumulation. The problem with this assumption, for example, is that a laborer may be willing to accumulate property in the form of business enterprises; however, his or her ability to save in order to invest in the start-up or purchase costs may be impeded by low wages and high costs of living. The low wages themselves may not necessarily reflect a low level of skill attainment; they can also be a product of blocked socioeconomic opportunities in the labor markets due to discrimination.

I, however, do not assume that there is equality of opportunity in the creation of wealth (income and assets) and property accumulation. The unequal distribution of income within the Puerto Rican community reflects the unequal distribution of property. It is a classic case of the haves versus the have nots. The Puerto Rican bodegueros were able to achieve upward income mobility by finding ways to overcome the political, institutional, and organizational barriers to property accumulation, especially by relying on the institution of the family.

Moreover, their income mobility is a product of their withdrawal from the NYC labor markets. Through personal savings, borrowing from family members, and/or informal contractual relations, the bodegueros were able to overcome the barriers to property accumulation in terms of gathering the initial capital investment for business start ups and purchases. Once they overcame the barriers to business ownership, the bodegueros were able to attain higher income mobility than Puerto Rican laborers.

I assume that low-income, Puerto Rican communities in NYC face a capital-market gap that constrains small-business ownership opportunities for three reasons: (1) the transaction costs involved for banking and financial organizations; (2) redlining; and (3) debt aversion on the part of Puerto Ricans. In both the equity and debt capital markets, private financial organizations (e.g., venture-capital firms) and banks do not invest in or lend to small businesses because the cost of gathering information and/or servicing the investments are greater than or equal to the benefits derived from the profit or interest rates. Redlining is a process in which banks indiscriminately do not lend to residents of low-income areas because of a

perception of either high risk, low profitability, or just due to racial discrimination. This study clearly shows how low-income communities may be indifferent or skeptical of the benefits of accessing capital markets; many prefer to be self-sustaining by relying only on the resources available within the community (i.e., family and friends). Given this norm, increasing their access to capital markets may have social costs.

Along with capital-market gaps, there are four other factors that limit the ability of Puerto Ricans to save in order to invest in property ownership: low wages, high costs of living in urban areas, discrimination in labor markets, and disparities in human-capital skills. These five factors diminish the financial resources available for initial capital investments and serve as barriers to entry for small-business ownership opportunities for the Puerto Rican community in NYC; the reliance on personal savings, borrowing from family members, and/or informal contractual relations limits the growth in the ranks of Puerto Rican small business owners, which probably explains why Puerto Ricans have such a low business ownership rate (about 1%).

The above-mentioned constraints to capital accumulation for the Puerto Rican community further perpetuate income inequality and inequality of opportunity for the accumulation of property both within the community and relative to the larger U.S. society. The have nots of the Puerto Rican community will continue to be at an income-mobility disadvantage relative to the property owners of the community. In addition, the growth in the ranks of Puerto Rican property and business owners will lag behind the larger U.S. society. This could have further detrimental consequences for the income and occupational mobility of future generations of Puerto Ricans. This would be the case if the findings of this study are more generally applicable. As mentioned above, the bodegueros whom I interviewed own other proprietary assets (especially homes) and a significant number of their children became college-educated, middle-class professionals.

What this study shows is that there is an interactive relationship between the institutions of discrimination and the family. Discrimination in the labor markets and insufficient skills (especially language skills) sets the context in which ethnic or immigrant families perceive self-employment through small-business ownership as the best method of attaining income mobility (Waldinger and Aldrich 1990). In some cases, the family must then overcome the additional barrier of discrimination in lending to raise the requisite

capital to buy or start a business, not to mention the more common constraints of low wages and high costs of living in urban areas. Once the business has begun operation, the family must cooperate to manage it. Yet, once the children become adults, as several bodegueros pointed out, they perceive working in the store as being boring and as having a low status, especially if they are interested in pursuing their higher education. Thus, in some cases, a conflict of values occurs within the family because of the divergent aspirations of the younger generation.

The barriers to entry for small-business ownership and property accumulation opportunities is a serious governance issue for a democracy. Equality of opportunity for all citizens is supposed to be a cornerstone principle of a democracy. Yet, inequality of opportunity is a structural outcome of an economic system with a skewed distribution of private property rights. The fundamental nature of private property is that it is an exclusive individual right enforceable by the state, which allows a property holder to exclude others from the use or benefit of something (Macpherson 1978; Bromley 1991); moreover, through the mechanism of inheritance laws, the property right of transfer consistently ensures that different social (i.e., racial and ethnic groups) and economic (i.e., occupational and income groups) classes will have unequal endowments of financial resources and economic opportunities over time. That is, the descendants of property owners will inherit wealth (income and assets), while the descendants of the propertyless inherit nothing. Thus, democratic governments (federal, state, and local) face contradictory roles in society in terms of enforcing the rights of property owners and promoting the rights of citizens to equal opportunity (Bowles and Gintis 1986). This clash is apparent in the policy-making process over the "right-to-work" laws, in which the owners of capital argue that the state should not interfere with their private property right to hire and dismiss workers as they see fit, while workers demand that the state protect their right to fair employment practices (due process) and income mobility opportunities.

This governance issue is interconnected with the factors of political power and control. Power in this context is defined as the ability to influence policy formulation and implementation; the meaning of control here concerns direct participation in policy formulation, and effective oversight of policy implementation. The persistence of constraints on small-business

ownership and property-accumulation opportunities, such as capital-market gaps and discrimination in the labor markets, indicates a lack of political will on the part of government to aggressively engage in policy reforms that would: (1) fundamentally change the existing skewed distribution of property and income; and (2) combat discrimination in capital and labor markets. This is evident in the timidity of government to raise taxes on capital gains, real estate, and inheritances to fund redistributive programs,<sup>23</sup> and through the new Community Reinvestment Act (CRA) reform that does not require banks to reveal the ethnicity of rejected loan applicants; in addition, multibillion dollar bank-holding companies have fulfilled their CRA requirements by making a \$100,000 grant to a nonprofit organization. In essence, the variables of power and control are intricately linked to the governance issue of equality of opportunity.

The persistence of capital-market gaps and labor-market discrimination is a reflection of the political powerlessness and lack of control over redistributive programs and affirmative-action policies on the part of the Puerto Rican community in NYC. There are three reasons why they are powerless. First, Puerto Ricans historically have had low voter turn-out rates. Politicians tend to ignore the issues and concerns of communities with high voter abstention rates, especially the poor.

Second, Puerto Ricans lack lobbying power in Washington, DC, due to their economic situation. Historically, successful campaigns for policy reform or the blocking of proposed policy reforms, have incurred high financial costs through lobbying consultants and Political Action Committees. Lacking economic resources, the only way that the poor have influenced policy changes, even if only temporarily, has been through massive political protest and mobilization, which oftentimes have occurred as a result of spontaneous

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<sup>23</sup>By redistributive programs, I do not mean the expropriation and redistribution of property. What I am advocating is greater taxation on high-income, large-scale property owners, such as millionaires and upper middle-class people who earn several hundred thousands of dollars annually, to fund public education, social services and property ownership opportunities for low-income citizens. I disagree with those who argue that increasing taxes provides a disincentive for property ownership. For instance, people buy homes not only because of the tax deductions for mortgage interest rates but because of the equity value of real estate; furthermore, the level of profits (e.g., in the millions of dollars range or higher) an individual or firm can earn through business ownership supersedes the disincentive of high tax rates. In terms of the role of taxation on business re/location, there are a number of factors that influence business location decisions besides tax rates such as proximity to markets, wage levels, labor force skills, physical infrastructure, and other amenities.



violence and social unrest (Piven and Cloward 1977). Protest and political mobilization require enormous coordinational and organizational efforts on the part of political organizers outside of the context of violence and social unrest that entail either high economic costs (i.e., due to organizational overhead costs and staff salaries) or high rates of participation of community volunteers.

Finally, Puerto Rican political powerlessness is also a result of the way that Puerto Ricans have organized themselves politically. "The patterns of political leadership in New York City's Puerto Rican community are: (1) the independent or personal pattern; (2) the bureaucrat-politician pattern; and (3) the poverty-crat pattern" (Jennings 1984: 96).<sup>24</sup> The underlying problem with these three approaches to political organization is that they have pursued the same political agenda: to increase funding for social service programs for NYC's Puerto Rican community. Obviously, this agenda is inappropriate in terms of increasing property ownership opportunities for Puerto Ricans. The traditional pattern of political organization has been a human-capital approach to achieve economic mobility.

In sum, income inequality, both within the Puerto Rican community (property owners versus laborers) and relative to the larger U.S. society, is a distributional consequence of the lack of political power and control on the part of Puerto Ricans to affect the governance of redistributive programs as well as affirmative-action laws targeting the capital and labor markets. As long as Puerto Rican laborers face political, institutional, and organizational constraints on their opportunities for upward income mobility through property ownership, the growth in Puerto Rican business and property owners will lag behind those of the larger U.S. society. This, in turn, will perpetuate further the political powerlessness of Puerto Ricans to change the governance of redistributive and affirmative-action laws.

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<sup>24</sup>The "independent or personal pattern" refers to politicians who run for office without a party affiliation and who are usually populists. The "bureaucrat-politician pattern" is synonymous for politicians who seek personal career advancement through membership in the Democratic Party, while the "poverty-crat pattern" refers to leaders of nonprofit, community-based organizations. The negative connotation of this term probably corresponds to the fact that there were several cases where such "poverty-crat" leaders were accused of misallocation of funds.

## CHAPTER 5:

### DOMINICAN SUCCESSION OF BODEGA OWNERSHIP

Several attempts have been made to explain why different racial/ethnic groups succeed each other in the ownership of small businesses in urban inner cities. For instance, Aldrich and Reich (1976) in their study of neighborhoods undergoing race residential succession in Boston, Chicago and Washington, DC, argue that race succession in small-business ownership is a consequence of population growth and movement. The focus of their study was the change in small-business ownership from whites to African Americans and Puerto Ricans. Aldrich and Reich argue that the business population changes in the same way as the composition of the residential population; however, they argue that succession occurred not because of the changing composition of the residential population per se but due to the decline in profit rates resulting from the influx of low-income residents and the risky nature of small business enterprises. In the analysis of Aldrich and Reich (1976: 865):

The rate of departure of white-owned businesses is fairly constant across types of industry in the early stages of succession, with retail and service businesses only slightly more likely to more likely to leave; in later stages, however, the loss of retail and service businesses is substantial and disproportionate, compared with other kinds of business. Not surprisingly, much of the gain in the black- and Puerto Rican-owned business population occurs in precisely these industries, as minority entrepreneurs of newly vacated niches. The industry distribution of white- and nonwhite-owned businesses are thus complementary as succession proceeds.

Aldrich's and Reich's analysis does not seem to be applicable to the case of the Dominican succession of bodega ownership in South Brooklyn and New York City in general. According to the 1990 U.S. census, the Dominican population represented only 7.6% of the total Hispanic population in South Brooklyn while Puerto Ricans comprised 69.1%; Dominicans represent 18.7% of the total Hispanic population of NYC while Puerto Ricans account for 50.3% (U.S. Census Bureau 1990). Yet Dominicans own approximately 66% of the bodegas in South Brooklyn and 90% of the formerly Puerto Rican-owned bodegas throughout NYC (Survey 1995; Fuentes 1992). Thus, residential

population change does not seem to be the primary causal variable in determining the Dominican succession of bodega ownership.

Levitt (1992) in her study of the largest Latino commercial districts in Boston found that Dominicans had succeeded Puerto Ricans in small-business ownership.<sup>25</sup> She argues that the succession occurred for the following reasons:

1. There is some evidence that Dominican migrants in Boston are more educated than their Puerto Rican counterparts. Prior research on Dominican migration to the U.S. found that Dominicans tend to be young, urban, middle class, skilled workers or semi-professionals. Indeed, two-thirds of the Dominican business owners in this study had some university education as opposed to only 36 per cent of the Puerto Ricans.
2. Most early Puerto Rican [migrants to Boston] were single men who came on labor contracts while Dominicans tended to migrate as families, thus creating a built in supply.
3. As citizens, Puerto Ricans have more job options and better access to social services [in the United States], while Dominicans may be pushed into small-business ownership for lack of other opportunities.
4. By the time Dominicans began arriving in Boston, city officials had come to recognize Latinos as an increasingly important constituency. Dominican business owners probably benefited from a system that had been broken in a decade before by Puerto Ricans.
5. Finally, while urban renewal in the 1970's rapidly dispersed the Puerto Rican community from its point-of-arrival in the South End, there has been a fairly stable residential concentration of Latinos in other neighborhoods over the last 15 years. Early Puerto Rican storeowners did not have access to the critical mass of consumers that Dominican entrepreneurs now enjoy (Levitt 1992: 6-7).

Except for the first and third reasons, Levitt's analysis seems to be particular to the conditions and experience in Boston; furthermore, she provides evidence for only the first reason. Her analysis does not seem to be relevant to the situation in NYC.

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<sup>25</sup>These include Egleston Square and Centre Street in Jamaica Plain, Dudley Street in Roxbury, Bowdoin/Geneva Avenues in Dorchester, the South End, and East Cambridge.

In my view, there are eight potential factors that may explain the Dominican succession of bodega ownership in South Brooklyn and NYC overall. The analysis below is preliminary and should not be interpreted as conclusive given the dearth of data available. With each factor, I will explain how more information can be obtained.

Factor One. Dominicans may have more access to financing for the initial capital investment for purchases and start ups if it is true that they are more likely to borrow from loan sharks.<sup>26</sup> There has also been speculation that Dominican bodegas serve as fronts to sell cocaine and operate informal lottery systems (i.e., “running numbers”); drug and lottery revenues would make it much easier to pay back loan sharks.

The issue of borrowing from loan sharks can be researched through open-ended interviews; to increase the likelihood of getting truthful responses, it is probably better for Dominican or Latino academics, researchers, and students to conduct the interviews. To answer the questions of drug sales and informal lotteries, the public records of the NYC police department should be investigated to see if they disclose any information about the number and frequency of bodegas closed down due to these activities and the ethnicity/nationality of those arrested. Given that the initial capital investment is an important barrier to entry for low-income ethnic communities in becoming small business owners, some percentage of people probably resort to illicit methods to attain financing and earn profits.

Factor Two. The older generations of Puerto Rican bodegueros probably retired to Puerto Rico or Florida. Bodegas are capital assets with sale values ranging from \$30,000 to \$100,000 depending on the annual sales volume, refrigeration and deli equipment, length of the lease/building ownership, and store size (i.e., inventory space). The cash gained from the sale of a bodega could have been used as retirement savings.

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<sup>26</sup>The sources of this information were some of the Puerto Rican bodegueros whom I interviewed and a Dominican contact of mine. According to my Dominican contact who worked for his uncle and aunt in their bodega, his family financed the purchase of their store by borrowing from a loan shark. As a condition for the loan, the name of the loan shark was placed on the lease to ensure payment. If the periodic payments were not made, the loan shark would become the owner. This contact of mine told me that this is common way of financing ownership of bodegas among the Dominican community in NYC. Of course, the extent to which this is true must be researched before a definitive conclusion can be made.

It is very difficult to gather reliable data on the retirement/relocation question. Census data disclose no information about prior residences. In addition, it is probably very expensive and time consuming to conduct representative random sample surveys. In any event, the majority of the remaining Puerto Rican bodegueros in South Brooklyn were either in their fifties or sixties; several of them informed me that they knew of Puerto Rican bodegueros that retired to Puerto Rico and Florida and they indicated that they intended on retiring to Puerto Rico themselves. Thus, retirement and relocation is probably an important factor albeit a difficult one to assess the degree of importance because of the difficulties in obtaining data.

Factor Three. Outmigration of Puerto Ricans from NYC to other parts of the United States probably affected the bodega and small-business ownership rate in general. In the 1940s and 1950s, approximately 85% of Puerto Ricans in the United States lived in NYC (Sánchez-Korrol 1994). Currently, only 35.2% of Puerto Ricans reside in NYC (see Table 6) (U.S. Census Bureau 1990). Sánchez-Korrol (1994) points out that there were three migratory waves of Puerto Ricans to the United States: (1) 1940s through 1960, (2) 1960 through 1970, and (3) 1970 through the present. In the peak years of the 1950s, migration approximated 40,000 to 50,000 per year; it declined to 10,000 to 20,000 per year in the 1960s and to even lower levels in the early 1970s. "The third phase, from 1970 to the present, has been marked by higher levels of return migration [to Puerto Rico], with a gradual equalization of out and return migration during the eighties, when the stateside Puerto Rican population reached 2,013,945" (Sánchez-Korrol 1994: 215). As we can see, outmigration from Puerto Rico does not seem to account for the dispersal of Puerto Ricans in the United States.

It is also very difficult to gather reliable data for the outmigration question because of the same reasons given for the retirement issue. However, we do know that in 1987 only 25.4% of all Puerto Rican-owned firms in the continental United States were located in NYC (U.S. Census Bureau 1987); of course this is not a perfect proxy variable given that the U.S. Census Bureau does not report what percentage of Puerto Rican business owners in the United States migrated out of NYC.

Factor Four. Bodegas probably have a high ownership turnover rate because they probably are not as profitable as businesses in other sectors. They

**Table 6: Puerto Ricans in the United States and New York City, 1940-1990**

Year	United States	New York City	% Residing in NYC
1940	69,967	61,463	87.8%
1950	301,375	254,880	84.6%
1960	887,661	612,574	69.0%
1970	1,391,463	860,584	61.8%
1980	2,013,945	860,552	42.7%
1990	2,651,815	933,329	35.2%

Source: Sánchez-Korrol 1994

have high overhead costs (due to inventory), lots of competition, and little differentiation between them; bodegueros do not advertise and often their prices are expensive compared to supermarkets (Athey 1991). Bates (1993: 253) points out "the fact that ethnic succession is most apparent in the least attractive lines of small business." The reason why immigrants go into this line of business is because grocery stores have much lower purchase/start up costs than other types of businesses (Bates 1993). Lower profit margins seem very likely to induce entrepreneurs to sell.

The issue of turnover can be investigated by examining city licensing records to see if they reveal the ethnicity/national origin of the owners or through surveys. The other questions can be researched through surveys.

Factor Five. There has been an overall growth in Puerto Rican-owned firms in the NY metropolitan area; moreover, Puerto Ricans business ownership seems to be diversifying into other sectors even though the largest concentration of ownership remains in the retail trade and service sectors (see Tables 7 through 11). From 1969 to 1987, the number of Puerto Rican owned firms in the New York-New Jersey Standard Metropolitan Statistical Area (NY-NJ SMSA) increased by 274% from 1884 to 7046 (U.S. Census Bureau 1972, 1987).<sup>27</sup> In all sectors the number of Puerto Rican-owned firms grew from 1969 to 1982 ranging from the lowest growth rate of 33.9% in retail trade to a high of 397.6% in transportation and public utilities (See Tables 7 and 8).<sup>28</sup> Although the proportion of Puerto Rican-owned firms as a percentage of total Hispanic firms has fluctuated substantially in all sectors from 1969 to 1982, this is a reflection of the initial decline of (1969-1977) and then rapid growth (after 1977) of Hispanic firms in the NY-NJ SMSA (See Table 7). Overall, from 1969 to 1987 Hispanic firms increased by 320.9% from 5,468 to 23,014. Although the data show expanding business ownership opportunities for both Puerto Ricans and Hispanics in general, we do not have more disaggregated information about ownership by business types (three- to four-digit SIC codes) for different Latino nationalities at the SMSA level.

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<sup>27</sup>The data presented here and in the corresponding tables cover up to 1987 because the 1992 *Survey of Minority-Owned Business Enterprises* has yet to be published by the U.S. Census Bureau (it will be published in 1996).

<sup>28</sup>Beginning in 1987, the U.S. Census Bureau stopped publishing the sectoral distribution of Hispanic-owned firms by Hispanic origin at the SMSA level; the data are also not disaggregated beyond the one digit SIC code by Hispanic origin at the SMSA level although they are disaggregated in this way to three-digit SIC codes at the national level.

Table 7: Sectoral Distribution of Puerto Rican- and Hispanic-Owned Firms in NY-NJ SMSA, 1969-1982

Sector	1969			1972			1977			1982		
	P.R. Firms	Hispanic Firms	P.R. Firms As % of Hispanic Firms	P.R. Firms	Hispanic Firms	P.R. Firms As % of Hispanic Firms	P.R. Firms	Hispanic Firms	P.R. Firms As % of Hispanic Firms	P.R. Firms	Hispanic Firms	P.R. Firms As % of Hispanic Firms
Construction	73	303	24.1%	40	216	18.5%	60	180	33.3%	220	636	34.6%
Manufacturing	68	202	33.7%	64	184	34.8%	65	146	44.5%	101	269	37.5%
Transportation & Public Utilities	83	220	37.7%	95	250	38.0%	157	329	47.7%	413	1,299	31.8%
Wholesale Trade	47	136	34.6%	39	128	30.5%	62	149	41.6%	134	443	30.2%
Retail Trade	899	2,122	42.4%	638	1,579	40.4%	799	1,287	62.1%	1,204	2,596	46.4%
FIRE	69	393	17.6%	40	190	21.1%	71	152	46.7%	181	370	48.9%
Selected Services	493	1,513	32.6%	368	1,215	30.3%	680	1,732	39.3%	1,397	4,872	28.7%
Other Industries	152	579	26.3%	38	214	17.8%	109	228	47.8%	587	1,808	32.5%
Total	1,884	5,468		1,322	3,976		2,003	4,203		4,237	12,293	
P.R. as % of Total Hispanic Firms	34.5%			33.2%			48%			34.5%		

Source: U.S. Census Bureau 1972, 1977, 1982

Note: NY-NJ SMSA= New York-New Jersey Standard Metropolitan Statistical Area; P.R.= Puerto Rican; FIRE= Finance, Insurance, and Real Estate;

Other Industries= residual category that includes agriculture, non-classified industries, and "other industries," as previously defined by the U.S. Census Bureau.



**Table 8: Growth of Puerto Rican-Owned Firms in the NY-NJ SMSA by Sector, 1969-1982**

Sector	% Change
Construction	201.4%
Manufacturing	48.5%
Transportation & Public Utilities	397.6%
Wholesale Trade	185.1%
Retail Trade	33.9%
FIRE	162.3%
Selected Services	183.4%
Other Industries	286.2%

*Source:* U.S. Census Bureau 1972, 1977, 1982, 1987

Note: FIRE= Finance, Insurance, and Real Estate; Other Industries= residual category that includes agriculture, non-classified industries, and "other industries" as previously defined by the U.S. Census Bureau; NY-NJ SMSA= New York-New Jersey Standard Metropolitan Statistical Area.

**Table 9: Ownership of Hispanic Firms in the New York, NY PMSA by Hispanic Origin: 1987**

Hispanic Origin	Firms	As % of Hispanic Firms
Mexican	902	3.9%
Puerto Rican	7,046	30.6%
Cuban	2,920	12.7%
Other Central or South American	10,504	45.6%
European Spanish	1,227	5.3%
Other Hispanic	415	1.8%
Total	23,014	100.0%

*Source:* U.S. Census Bureau 1987

Note: NY PMSA= New York Primary Metropolitan Statistical Area

**Table 10: Puerto Rican-Owned Firms in the United States by Sector, 1987**

Sector	Firms	% Distribution
Construction	2,671	9.6%
Manufacturing	662	2.4%
Transportation & Public Utilities	2,131	7.7%
Wholesale Trade	650	2.3%
Retail Trade	5,044	18.2%
FIRE	1,969	7.1%
Services	12,508	45.2%
Other Industries	2,062	7.4%
Total	27,697	100.0%

Source: U.S. Census Bureau 1987

Note: FIRE= Finance, Insurance, and Real Estate; in 1987 the U.S. Census changed the definition of Other Industries; it is not being used here as a residual category.

**Table 11: Puerto Rican-Owned Firms in the NY-NJ SMSA by Sector, 1969**

Sector	Firms	% Distribution
Construction	73	3.9%
Manufacturing	68	3.6%
Transportation & Public Utilities	83	4.4%
Wholesale Trade	47	2.5%
Retail Trade	899	47.7%
FIRE	69	3.7%
Services	493	26.2%
Other Industries	152	8.1%
Total	1,884	100.0%

Source: U.S. Census Bureau 1972

Note: FIRE= Finance, Insurance, and Real Estate; NY-NJ SMSA= New York-New Jersey Standard Metropolitan Statistical Area; Other Industries= residual category that includes agriculture, non-classified industries, and "other industries," as previously defined by the U.S. Census Bureau.

Moreover, there seems to be a serious problem with the data; they show practically no growth in the Other Hispanic category where Dominicans should have been placed. It seems as though the U.S. Census Bureau categorized Dominicans as “Other Central or South Americans.” Therefore, the limitations of the data do not provide a clear picture of the contemporary situation in NYC concerning the Dominican succession of bodega ownership.

The databases used for the analysis of the fifth factor were the Survey of Minority-Owned Business Enterprises: Spanish/Hispanic Origin, from 1972 through 1987 published by the U.S. Census Bureau. Another potential source of data that I did not use is NYC records, although I am uncertain if they provide any information about business ownership by sectors, types of businesses, and ethnicity/national origin.

Factor Six. In this study, I show that there was a lack of intergenerational succession of bodega ownership within the family; this might explain the turnover of ownership to different ethnic groups. The analysis of Waldinger and Aldrich (1990) that small-business-ownership opportunities become available to immigrants as the established groups move out of a neighborhood or become economically assimilated (i.e., attain higher education and professional occupations) does not seem to be applicable in this study. Puerto Ricans greatly outnumber Dominicans in South Brooklyn (69.1% to 7.6% of the Hispanic population). In addition, there is a great disparity between the educational attainment and occupational status of Hispanics and their white counterparts in South Brooklyn. In 1990, 40.4% of Hispanics were high school graduates or higher, and 8.7% had bachelor’s degrees or higher; the figures for the white population were 90.6% and 69.3%, respectively (U.S. Census Bureau 1990). In terms of occupational status in 1990, 8.7% of Hispanics held executive, administrative, and management positions and 9.1% of Hispanics were employed in professional specialty occupations; the corresponding figures for their white counterparts were 18.3% and 39.9% respectively (U.S. Census Bureau 1990).<sup>29</sup> Therefore, economic assimilation alone does not seem to be a sufficient factor in explaining the Dominican succession of bodega ownership. The results of

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<sup>29</sup>The educational attainment and occupational status of Hispanics and whites cannot be compared at the city level (PMSA) because according to the 1990 census Puerto Ricans now only comprise 50.3% of the total Hispanic population in NYC. Thus the Hispanic umbrella term is not a sufficient proxy variable for the Puerto Rican population.

this study, however, imply that the children of small business owners are more likely to become college-educated professionals and thus achieve economic mobility. In essence, more attention should be paid to the issue of intergenerational succession (or lack of) within the family to explain the turnover of business ownership to different ethnic or immigrant groups.

The question of intergenerational succession of bodega ownership probably can only be researched through survey research, as in this study. Changes in residential population change, educational attainment, and the number of people who hold professional occupations can be obtained by examining decennial census data.

Factor Seven. Puerto Rican youths may be increasingly involved in the underground economy and therefore may not be interested in small-business ownership, especially if substantial amounts of untaxed income can be earned in a short time span. Assuming that labor-force-status statistics concerning persons not in the labor force are somewhat indicative of participation in the underground economy, the evidence in South Brooklyn seems to suggest that this may be an important factor in causing Dominican succession. In 1990, 40.7% of Hispanic males 16 years and older in South Brooklyn were not in the labor force while the figure was 56.9% for Hispanic females (U.S. Census Bureau). In sum, the attraction of Puerto Rican youths to the underground may be affecting the small-business ownership rate.

Because of the illegal status of many underground activities, reliable data on the precise nature and extent of participation in the underground economy is very difficult to obtain. Labor-force-status data are the only systematic information with consistent collection standards that can be used to estimate the extent of participation in the underground economy. Ethnographic and survey research would complement the study of labor force status data from the U.S. Census Bureau to understand the nature of the underground economy. Analysts must design ethnographic studies specifically to be able to compare different ethnic groups in different cities and focus on the roles and interaction of different actors within particular underground activities; particular attention should be paid to linkages between the legal and underground economies.

Factor Eight. Demographic change has probably affected the profit rates of bodegas. The influx of highly-educated, white professionals into the neighborhood probably diminished the customer base of the Puerto Rican

bodegueros, especially if the bodegas were not price competitive with supermarkets. In 1990 the Puerto Rican population of South Brooklyn represented 25.4% of the total population and Hispanics as a whole accounted for 36.7%; the white population comprised 34.2% of the total population (U.S. Census Bureau 1990). Thus, if the profit rates of the bodegas were declining due to demographic change, Puerto Ricans had an economic incentive to sell to Dominicans.

Demographic data can be obtained through decennial census data. Surveying stores about their customers and neighborhood residents about their patronage as consumers would shed more light on the impact of demographic change on the profit rates of small businesses.

In sum, the eight factors that I have identified above seem to be a starting point for future research in explaining the Dominican succession of bodega ownership in South Brooklyn and NYC. Some of these factors may be more relevant to certain neighborhoods in NYC than others. I do not claim to know the degree of importance of each of these factors. Only further research can help us draw more definitive conclusions. By investigating secondary data and conducting sample surveys and ethnographic research, we can get a better sense of the causes of ethnic succession in small-business ownership.

## CHAPTER 6: POLICY IMPLICATIONS

In my view, this study has both micro and macro policy implications for a small-business development strategy for economic development and poverty alleviation. I will discuss these in this chapter as well policy design issues.

### 6.1: Micro Policy Implications

The first micro policy issue is that grocery stores and other ethnic or immigrant small businesses in the retail and service sectors are able to survive because they serve markets that are underserved or abandoned (i.e., “niche markets”) by large-scale enterprises due to decreasing returns to scale. As Waldinger, Aldrich, and Ward (1990: 25-26) argue:

The fact that immigrants are so heavily concentrated in the core of urban centers means that they live in areas that are at once ill-suited to the technological and organizational conditions of large enterprise and favorable to small business.... A more important influence is the cost structure of food retailing industry: Overhead costs in central city locations keep store sizes down, thus diminish the scale economies that give large chain operations an advantage over small independent grocery stores.... [I]n New York City, large national chains play a very limited role in the food retailing industry; consequently, the industry has been entered easily by small immigrant concerns that do well in competing against local, nonimmigrant chains that lack the economies of scale to achieve significant market power.

The findings of this study seem to support this argument. In the area of South Brooklyn that I surveyed, there were 45 grocery stores and only 2 small supermarkets (about 2,000-3,000 square feet) that were not subsidiaries of national franchises.

The second micro policy implication is that a major barrier to entry by Puerto Ricans is the lack of finance. The appropriate role of finance for bodegas is to facilitate access to the initial capital investment for purchases or start ups and not necessarily for working capital for growth or expansion. Indeed, most of the bodegueros interviewed in this study were not interested in working capital financing because of their access to supplier credit and to family loans. This probably applies to other types of retail businesses that

have access to supplier credit as well. For low-income people living in cities with high costs of living like NYC, savings earned in the labor markets may not be sufficient to make the initial capital investment for small-business-ownership opportunities.

The third micro policy implication is that prior business experience or higher education does not necessarily determine the likelihood of the survival of a grocery store. None of the bodega owners in this study owned a business before migrating to NYC and none of them are college graduates. Yet these stores have been in operation from 14 to 35 years and have provided the owners with middle-class income statuses. These findings contradict Bates' (1993) assertion that only, high-income, better-educated, small-business owners should be targeted for public-sector loan programs and policies because they are supposedly more likely to survive and create jobs. Analysts, such as Bates, assume that inexperienced business people do not have the capacity to learn through trial and error or technical assistance. One of the bodegueros that I interviewed said that his key to success was simple: (1) treat his customers with respect; (2) extend credit to his regular customers; and (3) pay his bills on time. Furthermore, other issues may be more important to the success of a business than the previous background of the owner. For grocery stores, location is probably the most important factor in determining their survival and profitability. As mentioned earlier, the customers of bodegas are usually repeat customers who live within a four-square-block radius; they shop at the stores because of convenience (i.e., due to the close proximity to their residences). There is always a demand for groceries and food at the neighborhood level. High population density is probably more important to their profitability and likelihood of survival. Thus, programs targeting specific populations for small-business development should focus primarily on the nature of the production process of a particular type of business, its market demand, and the kinds of skills that these entail instead of relying on broad generalizations about the background people need for small business success.

The fourth micro policy implication is that there may be other types of businesses, such as bodegas, where the market demand extends beyond the coethnic group to the larger Latino population. Given that in 1990 there were approximately 1.9 million Latino residents in NYC, there is a substantial market for enterprise development (U.S. Census Bureau 1990). The key to

identifying these types of businesses is to understand the similarities in cultural institutions across the Latino nationalities. Strategic planning along these lines could serve as a catalyst for Latino community economic development.

## 6.2: Macro Policy Implications

At the macro level, the major policy implication is that because of the higher income mobility of the bodegueros and the occupational and income mobility of their children, more emphasis should be placed on interventions that seek to promote small-business ownership opportunities as a strategy for economic development and poverty alleviation. This is especially the case if bodegas are one of the lower profit-making businesses. As a democracy, the United States government should consistently expand the small-business and property-ownership opportunities of low-income communities to promote equality of opportunity for all of its citizens; this would gradually diminish the skewed distribution of private property rights passed down from generation to generation. Essentially, a small-business development strategy can foster the development and expansion of a middle class among poverty populations.

However, there are three serious concerns with small-business development as a strategy for economic development and poverty alleviation. First, nationally about 1% of Puerto Ricans and approximately 2% of the larger Hispanic population are self-employed (Waldinger and Aldrich 1990: 56); 32.3% (584, 871) of Hispanics in NYC live at the poverty (U.S. Census Bureau 1990). Thus, the economic resources available for small business development may not be able to surmount the scale of the poverty problem. Moreover, not everyone is interested in, nor has the capacity for, self-employment.

Second, analysts have questioned the Birch (1981) hypothesis that small businesses generate 80% of new employment in the United States (Armington and Odle 1982; Freedman 1985; Bates 1992; Harrison 1994: 37-52). They argue that Birch's methodology for measuring job creation is suspect. As Freedman (1985: 154) points out:

As to employment growth, the popular idea that small businesses account for most new jobs in today's economy turns out to be based on confusing small establishments with small firms. If



the data are examined by size of company rather than by how many people work in a given location, the small-business (firms with fewer than 100 employees) contribution to net job growth is about proportional to its share of the American labor force [approximately 6%].

Third, ethnic- or immigrant-owned small businesses tend to be concentrated in the least-profitable types of businesses in the retail and service sectors. In the words of Freedman (1985: 154):

What is more significant [than the small percentage of job creation] is the fact that small businesses have a much higher share of growth in slow-growing and in lagging regions because they tend "to enter and expand into relatively weak areas of production (those without large-business competition)" (Armington and Odle 1982). What this means is that those with a taste for entrepreneurship may find a place in the interstices of the economy that are outside the purview of large-scale capital enterprise, even though these marginal firms do not generate a great deal of employment.

Further, Bates (1993) points out that the larger, more profitable small businesses are in the manufacturing and wholesale sectors. These sectors are more capital-intensive, have greater employment impacts, and pay high wages. The initial capital investments required in these types of small businesses are an even greater barrier to entry for ethnic groups and immigrants. It is precisely in these sectors where ethnic succession does not occur (Bates 1993).

Evidently, a small-business development strategy is not sufficient for poverty alleviation in low-income ethnic and immigrant communities. Its role should be understood as an important component of a comprehensive economic-development strategy that helps to solve the social, economic, physical, and political problems of low-income communities. Small-business development should complement other strategies for economic development, such as investment in public education at all levels; labor-based approaches, such as job training for specific industry needs; physical infrastructure; and nonprofit organizations that are involved in political advocacy and the provision of social services, entrepreneurial training, and technical assistance. This is so because the overwhelming majority of all people regardless of race and ethnicity are labor force participants.

### 6.3: Policy Design

Given the above-mentioned limitations of small-business development, the design of policies to promote business-ownership opportunities among low-income ethnic and immigrant communities should account for the following four issues:

- the causes of unequal distribution of business ownership opportunities in society and within the target population, such as capital-market gaps, low wage levels, high costs of living in urban areas, discrimination in capital and labor markets, and disparities in human capital skills;
- the scale and type of business ownership opportunities in terms of large versus small businesses and growing versus declining sectors;
- the need for diversification of business-ownership opportunities beyond the servicing of ethnic markets in the retail and service sectors;<sup>30</sup> and
- the need for political lobbying organizations with substantial economic resources, such as industry and professional associations, business councils, and nonprofit community/local development corporations.

These four policy design issues imply that a small-business development strategy cannot be limited to providing increasing access to capital. Debt aversion on the part of low-income communities, the need for diversification of industries and larger-scale enterprises, as well as disparities in human-capital skills, certainly imply that there is a need for the provision of entrepreneurial training, technical assistance, and social services on the part of nonprofit community/local development corporations. Further, public-sector investments in public education, vocational job training programs, and physical infrastructure are often vital to the long-term competitiveness and sustainability of local economies. Although we should promote the growth in the number of ethnic and immigrant entrepreneurs because of their higher income mobility, the small-business strategy for economic development should not be perceived as a silver bullet.

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<sup>30</sup>This is one of the primary factors in the success of enclave economies, such as that of the Cubans in Miami. The intersectoral linkages between suppliers, contractors, and clients create formal and informal social networks that foster economic growth and employment opportunities for Miami's Cuban population (Wilson and Portes 1980; Portes and Bach 1985).

## CHAPTER 7: CONCLUSION

The six cases of this study show how Puerto Ricans immigrants were able to achieve higher income mobility through small-business ownership compared to labor force participants. The bodegueros consciously withdrew from the formal NYC labor markets because they perceived self-employment as the best path to attain economic independence and higher financial compensation. Small-business ownership allowed the bodegueros to accumulate additional property and finance the higher education of their children. It provided them with a middle-class income status in NYC that they would not have been able to achieve in Puerto Rico.

The initial endowment of capital is essential in determining who is able to achieve a middle-class income status through small-business ownership. Moreover, there is no equality of opportunity with respect to gathering the initial capital investment for small-business ownership because of the political, institutional, and organizational barriers to property ownership and accumulation. These barriers to entry into small-business ownership include: (1) capital-market gaps, (2) low wage levels, (3) high costs of living in urban areas, (4) discrimination in the labor markets, and (5) disparities in human-capital skills. The Puerto Rican bodegueros in this study were able to attain a higher income mobility than Puerto Rican laborers by: (a) overcoming these barriers to entry through modest personal savings, borrowing from family members, and/or informal contractual relations; and (b) relying on the institution of the family to cooperate in the management of their businesses. In essence, inequality of opportunity limits the ability of Puerto Rican laborers to gain wealth (income and assets) to facilitate small-business ownership opportunities and accumulate additional property. This is why the role of the United States government, as a democracy, should be to expand property-ownership opportunities for low-income communities, such as Puerto Ricans in NYC.

In conclusion, income inequality both within the Puerto Rican community (property owners versus laborers) and relative to the larger U.S. society is a distributional consequence of the lack of political power and control on the part of Puerto Ricans to affect the governance of redistributive programs as well as affirmative-action laws targeting the capital and labor markets. As long as Puerto Rican laborers face political, institutional, and

organizational constraints on their opportunities for upward income mobility through property ownership, the growth in Puerto Rican business and property owners will lag behind those of the larger U.S. society. This, in turn, will perpetuate further the political powerlessness of Puerto Ricans to change the governance of redistributive programs and affirmative-action laws.

## **APPENDIX A**

### **BODEGA SURVEY QUESTIONNAIRE**

#### **Occupational Background and Migration**

1. What was your occupation in Puerto Rico?
2. When did you migrate to NYC?
3. Why did you migrate to NYC?
4. Have you ever migrated back to Puerto Rico and for how long?

#### **Ownership Motivations**

5. Why did you choose to own a grocery store rather than some other type of business?
6. What was your ownership motivation (i.e., economic calculus, to avoid racism, to maintain family unity)?

#### **History and Residence**

7. When did you buy or start-up the store?
8. How and why did you choose the neighborhood where the store is located?
9. Do you or have you lived in the neighborhood? For how long?

#### **Finance**

10. How did you finance the purchase or start-up of the store (i.e., previously self-employed in Puerto Rico, savings earned in NYC labor markets, pooling of resources by the family)?
11. What kind of access to credit and/or working capital do you have?

#### **Security/Stability**

12. Do you have any other substantial assets (i.e., stocks, land, real estate, other businesses) and what percentage of your total net worth does the store represent?
13. Have you ever filed or come close to filing for bankruptcy?
14. Do you feel that crime is a problem in this neighborhood and have you had any experiences with crime?

#### **Labor**

15. How many employees do you have?
16. Are the employees paid strangers or unpaid family members?
17. In both the past and present, how often and how long did/do family members work in the store?

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